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OUR ECONOMIC PROBLEMS:
and their solution

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**SEXUAL REGULATIONS AND CULTURAL
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(*Oxford University Press, 1935*)

SEX AND CULTURE

(*Oxford University Press, 1934*)

**SEXUAL REGULATIONS AND HUMAN
BEHAVIOUR**

(*Williams & Norgate, 1933*)

The last mentioned book is an abstract of "Sex and Culture" which contains a full statement of the evidence and conclusions summarized in "Sexual Regulations and Cultural Behaviour," which is a reprint of an Address. The difference between the two smaller works is that in the Abstract emphasis is placed on the facts; in the Summary on their interpretation.

"The Scandal of Imprisonment for Debt" is the result of three months' investigations. The author visited the London debtors' prison four days a week, and interviewed four hundred and ninety-eight prisoners during the three months.

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OUR ECONOMIC PROBLEMS

and their solution

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GEORGE ALLEN & UNWIN, LTD

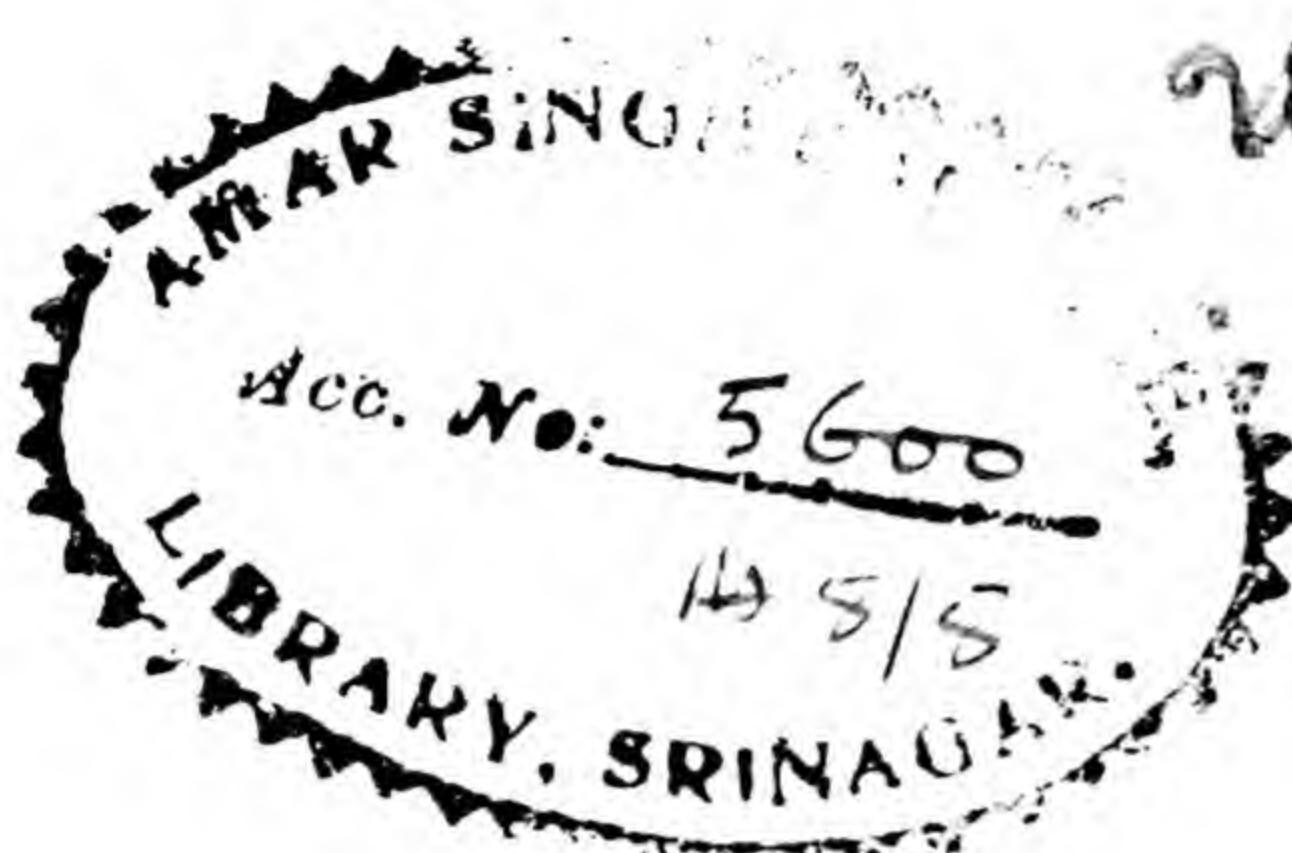
FIRST PUBLISHED IN 1944

SECOND IMPRESSION 1945

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PRINTED IN GREAT BRITAIN BY
BRADFORD & DICKENS, LONDON, W.C. I

Preface

SOMETHING is wrong with our social and economic system. All the social reforms of the last hundred years, and indeed all the proposed reforms for post-war reconstruction, still leave us wondering if the leaders of our various political parties and our economists are really getting to the root of the trouble. In fact, one may justifiably ask if they are solving anything by proposals bearing such a strong suggestion of impermanence.

In 1940, four years after the death of the author, the work *Hopousia* was published. In this work, J. D. Unwin considered what social structure would be necessary in order to produce in society the greatest manifestation of energy, and what social, political and economic systems would establish the conditions which would encourage the display of the maximum human energy.

The present work is an extract from *Hopousia*. In order to make this exhaustive and complicated enquiry of more general interest and to concentrate on that aspect of the subject which appears to be the most urgent for civilization to-day, namely, the economic aspect, the social and political questions discussed in *Hopousia* have been omitted.

Plainly, our present system, which hampers initiative and frustrates energy at every turn, is not the most suitable that could be devised for an energetic society. What economic structure should be substituted? In his introduction to *Hopousia*, Aldous Huxley says :

"Unwin's answer to this question is contained in a series of masterly chapters. . . . Let it suffice to say that, if Unwin's scheme is sound, there exists a method by which the intolerable burden of usury can be lifted; by which political power can be taken out of the hands of those who control money; by which production can be automatically balanced by a corresponding quantity of purchasing power; by which unemployment, among the rich as well as among the poor, can be eliminated; by which personal liberty based on economic independence can be fortified and the monstrous power of central authority diminished."

It is these masterly chapters in a rearranged shape that form the main part of this volume.

Since the author wrote these chapters, public opinion on economic matters has shown signs of some enlightenment. Discussions on the Beveridge Plan, the Uthwatt Report and latterly the Keynes Plan have

all in their different ways reopened the question of what is real wealth. The "disappearance" cry is becoming weaker. The belief that a nation's wealth is its capacity for production rather than its gold is gaining ground. This wealth can only reach its peak by the formulation and establishment of such conditions as will enable the people of all classes to exert their maximum energy in a well-ordered, just and satisfactory social organization.

The author considers that no revolution or any new "-ism" is necessary. Nor does he subscribe to any of the multifarious "-isms" that are urging their appeals in the world to-day. Rather does he advocate true democratic principles. The social troubles encountered by democracy are traced to their sources and the fundamental causes exposed. He suggests that the rejection of the four fallacies of our economic system which are discussed in this work will help us build a saner and sounder structure. To accomplish this, we must not cling to our old prejudices merely because they are familiar, nor continue in our old mistakes because we dislike and fear change.

Y. LUBBOCK.
R. H. UNWIN.

London, 1943.

Contents

CHAPTER	PAGE
PREFACE	5
I. THE STRUCTURE OF SOCIETY ✓	8
II. WANTS ✓	15
III. MONEY AND CURRENCY ✓	21
IV. THREE METHODS OF COMMODITY-EXCHANGE	53
V. FALLACIES INHERENT IN OUR ECONOMIC SYSTEM	72
VI. A FOURTH METHOD OF COMMODITY-EXCHANGE	105
VII. APPLICATION OF THE FOURTH METHOD	122
VIII. THE FOURTH METHOD AND ECONOMIC LAW	142

Chapter I

THE STRUCTURE OF SOCIETY

I TAKE it that for some years now (1936) the aim of most 'white men has been to get rich.) A few have achieved riches, but as a social aspiration a state of riches has not been achieved. Men have invented the means of producing commodities quickly and in large quantities, but the amount of production is manipulated in accordance with the economic system. Thus they are deprived of much by the limiting of the amount produced, and these commodities are not available to any except a few. Riches would imply an abundance of goods; but instead of abundance we find poverty. To be rich, men must produce much; but we are daily increasing the number of our pensioners. Moreover, since machines are idle, men are idle too, and they are paid and fed though they produce nothing. Craftsmen have difficulty in practising their craft; young men, anxious to be trained as apprentices, are turned into the street and find anti-social outlets for the energy they cannot exert in a productive way.

Meanwhile the products of indifferent workmanship are forced upon us, and our basic industries must be subsidised, one by one. Although aiming at riches, we are achieving poverty and bankruptcy. And that is not all. The companies that control the production of the few things that are still being exchanged, are beginning to occupy a position comparable with that of the robber barons in the reign of King Stephen; the workers are being reduced to a position less free than that of the medieval villeins and slaves. In many cases the companies own the land on which the factory stands, the houses in which the workers live, the shops from which they buy their food and clothes, and the machines that furnish light and heat. Such companies often have their own private police whose position is similar to that of the barons' retainers. The directors are the modern feudal lords, dispensing justice in the local courts, controlling the insurance trusts that provide the funeral expenses of the workers' dead, training and appointing the priests that care for the workers' souls, and directing the policy of the theatres, playhouses, cinemas and all cultural activities. Every item in this condition can be traced to a desire to get rich. In its most virulent form, it has been most handsomely achieved in America, the home of the desire to obtain riches for their own sake; but the same phenomena exist in many parts of western Europe.

Again, our present social system, and our system of education too, is founded on the assumption that a man's aim in life is to place himself in such a position that other men may keep him in affluence while he is idle. Most men try, and all men are certainly encouraged to make money, to save money, and then, if they can, to retire. The unquestioned manner in which this aim is taken for granted is one of the most interesting phenomena in our lives. We even judge a man's success by the age at which he ceases to be a productive citizen; if he retires at forty, he is covered in social glory. Our greatest honours sometimes go to men who have never done productive work at all. Such standards of conduct and judgment are created by our institutions.

(The power of thought has diminished.) The Press dictates, suggests, insinuates. A collection of highly selected data masquerades as news, giving a false impression of events. There is little real mental activity; there is a great deal of talk. The mob falls a ready prey to the oratory of demagogues who, in their will-to-power, create dissension in order to secure their ends. Numbers, that is, quantitative criteria, rule everywhere; and since the rule by numbers always implies a rule by force, force is the weapon the governments use more and more.) In international relations the rule of force is covered by words of idealism, but it is there.

Nowadays we hear much about "solving the unemployment problem." Some reformers even tend to regard it as part of what they call the "world-depression." They forget that enforced idleness was common in our society long before the alleged "depression" began. Even before the Great War, large numbers of men were unable to find work. A measure of enforced idleness is inevitable when a society has such an economic system as ours.

* * * *

We live in an age when the State is becoming paramount. To an increasing extent things are being done in the name and for the sake of the State. Indeed, I think it would be true to say that our reformers who reflect the nature of our age, can think in no other terms. We give money to the State, and the State is even regarded by the less instructed as having an inexhaustible supply of money. The men that control our basic industries have got into such a confused condition, and are so incapable of seeing their way out of that condition, that they crawl to the State for assistance. We endow the State with greater and yet greater power, and with the usual inevitable results. Our law is rapidly ceasing to be a vehicle for the redress of injury, and is becoming a set of rules, the number of which increases annually. Spies have

to be appointed to see that the rules are obeyed; corruption is the result, for a spy can be paid to look the other way. We encourage our citizens to humble themselves before the State and regard it as the source of all blessings. No savage ever had a greater faith in his magician, nor an Indian proletarian in his Prince, than that which our grandchildren will have in the Great State Officials. The first signs of that faith are already apparent in many aspects of our present life. As a result of this, many of us are inclined to regard the State as a necessary phenomenon. Let this be said, then, that the State is not a *cultural* necessity at all, but a *political* unit that is interposed under certain cultural conditions. These conditions arise when a clan or group wishes to strengthen its hold upon the society and when its victims are too sluggish to prevent it. (The structure of society should be an elastic one in which men could live their lives as they think best; it should not be an iron cage such as feudal lords or despots impose, or as Socialist reformers wish to impose.)

(When the State becomes more important than the individual, centralization is the rule; and I am confident that decentralization, and as much decentralization as possible, is vital, so that the greatest possible number of persons can develop initiative, and a sense of responsibility, and use their talents to the full.)

* * * *

(The human organism is naturally gregarious and only lives in organized units called societies. When collected together into these societies, human beings have, by virtue of their inherent nature, the power to display a unique kind of energy, technically called "human energy." This energy consists in the use of faculties that are peculiar to the human organism, the faculties of reason and creation. These are the faculties that have produced what is loosely called "civilization," and their use depends on a third faculty possessed by the human organism, that of reflecting on itself. Technically it is called self-consciousness.)

Although it is true, if we analyse a society into its final parts, we find nothing but males and females, a human society is not a collection of individuals but of human groups. A mere collection of males and females would never hold together but would disintegrate. In a human society, structure is as important as in any other natural event, and to say that society is merely a collection of individuals is as false as saying that a material substance is merely a collection of electrons and protons. True, some physicists, when addressing popular audiences, are accustomed to speak as if substance were a mere mass of electrons; but this is sheer carelessness. No man can point to an example of such a

substance. Nature is structure through and through. Electrons are gathered into atoms, which vary in size and constitution. These atoms are then united in molecules, which also vary in size and constitution. The event called a material substance emerges from this structure ; and its chemical properties depend, first, on the nature of the atoms, and secondly, on the way in which the atoms are placed in relation to one another.

Analogies are often misleading, but the analogy between a material substance and a human society is useful in pointing out the error of the notion that a society is a mere collection of individuals. Analogically, an individual may be compared with an electron ; a family with an atom ; and a clan, a political or an economic group with a molecule. This comparison is not exact, but serves a useful purpose.

First then, the males and females are united in families, which vary in size and constitution ; these are then gathered together into moieties, clans, septs, *grosfamilie*. The families are also united territorially into such political units as hamlets, villages, towns, boroughs and shires. There are also cultural and economic groups, secret societies, brotherhoods, companies, guilds, unions, fellowships, factions, parties, sects, crews, regiments, federations, etc. The event called a human society emerges from this structure, and its cultural behaviour depends, first, on the nature of the groups composing it, and secondly, on the way in which these groups are placed in relation to one another. Just as it is part of the inherent nature of electrons to join protons and thus produce atoms, and for atoms to join other atoms to produce molecules, so it is part of the inherent nature of the human organism to form groups of various and varying sizes and kinds.

The outstanding difference between a human society and a chemical substance is that whereas, as far as we know, an electron can only be part of one atom at one time, a human being can be a member of any number of human groups. But this fact does not alter the fundamental character of a society. The individual, like the electron, is important, but by himself he is nothing, just as an isolated electron is nothing. Moreover, it does not matter how many electrons there are ; by themselves, they are unable to form a material substance ; this cannot emerge till a number of electrons have attached themselves to other energy-producing units and thus produced atoms. These atoms are then packed together in one of many different ways, and the substance is formed.

In a similar manner, a mere collection of human beings does not produce a society, which only comes into existence when a number of persons of both sexes have formed themselves into human groups. As

the energy of the society increases or decreases, individuals leave one group and join another. Some groups may even disappear; others may be created. But these changes do not change the fundamental character of the structure which remains the same.

If we watch human activity from a height, from an aeroplane or balloon, we seem to observe hordes of individuals in fortuitous gatherings; but there is actually no chance about the groups we see. Individuals are not scattered about like grains from a pepper pot, thickly here, thinly there. Each is a member of a greater whole or wholes, and throughout his life, he moves in his orbit, not as he likes but in company with others, his movements depending on his natural constitution, his experience and his environment.

Nowhere do we find a society that is a mere collection of individuals. If a hundred men were cast upon an uninhabited island, the first thing they would do would be to form little groups among themselves. When this had been done, a human society would emerge. It is natural for human beings to behave so; human life cannot be lived in any other way.

* * * *

A chemical substance like water is not only an event which has a certain structure; it is in a certain state of energy. If the molecules that constitute it are in a different state of energy, they behave in a different way, and appear as ice or as steam. Similarly, a human society is not merely a structure of human groups, the groups are in a certain state of energy and behave accordingly. Moreover, if they are energized, they begin to behave in a different way from what they did before.

In ice the molecules cohere rigidly. When energy in the form of heat is applied to them, they move apart, and the ice changes its state and becomes water. The ice has no choice in the matter. When energized, it cannot help changing its state, nor has it any choice concerning the state into which it must arrive. And it becomes water because it is part of its inherent nature, when energized, to behave in that manner. Similarly, if a human society is in a state of little or no energy, the groups of which it is composed cling closely together, have uniform mental processes and behave in the same way.

But with a small amount of increased energy, the individuals move apart, and between them and other members of the society, there is a cultural distance due to the mental energy they display. Towards the external universe they preserve a different attitude from that of their less energetic brethren, and, forming themselves into a new group, they constitute a new stratum. The members of this stratum cannot help

behaving in a different manner. This behaviour depends on the extent of their energy, that is, on the extent to which they develop their inherent powers.

If the molecules that constitute the event we call water are subjected to the influence of more energy, they move more freely still. Again, they have no choice in the matter; nor can the change in their behaviour be any other than the observed one. If the water is continually energized, it gets hotter and hotter, boils, and then becomes steam. The molecules are the same in each case, but the energy applied to them makes them move farther and farther apart.

The same thing happens to human society. With further increased energy, the ideas of some people change; their behaviour alters too; new groups are formed and a new stratum soon appears. The individuals that compose this group have no choice but to behave differently from their brethren.

I have compared a human society to a chemical substance like water. In the past human societies have arrived into one of several states of energy, which may be compared to ice, water, hot water, boiling water and steam. But a society has yet to arrive at a state comparable with compressed steam; that of displaying the greatest possible amount of energy. This steam consists of the same molecules as once appeared in water, but which have now been promoted into a state of terrific energy. This power, be it noted, has always been potential.

* * * *

In the preceding pages, I have endeavoured to show that human society is a collection of groups, and that the energizing of these groups produces "civilization." An examination of conditions existing to-day makes it apparent that here and now energy is being frustrated at almost every turn. It is obvious that, if civilization is to continue, the display of energy must be increased rather than handicapped; and that therefore our institutions and systems must be recreated to encourage every man to use the powers he may possess. There must be no such thing as enforced idleness. Productivity must be applauded, inactivity questioned; children must be taught neither to praise the parasite nor to aim at becoming parasites themselves. Blackcoated workers must no longer be held in higher esteem than craftsmen. Above all, in a system recreated in accordance with the display of the greatest possible energy, a man must not be, as he is apt to be in the "planned economy" that is fashionable among us now, a mere peg to be inserted in a hole by some planning commissioners. He should be a unique unit of human energy, manifesting his inherent powers as he wishes in an environment specially created to irritate him as little as

possible, and to encourage him as much as possible. Moreover, diversity, not uniformity, will be required, that human energy may manifest itself in any of the multitudinous forms it takes.

In the following chapters, our economic system is examined, and it becomes apparent how it strangles, and why it must inevitably strangle human energy. This is not to claim that all human ills spring from an economic source, or even that the economic question can be divorced entirely from the political and the social. Limitation of space, however, makes it necessary for the expose to be confined to economic matters.

In the last chapter, lines will be indicated on which our economic system could be recreated in accordance with the display of the greatest possible energy.

Chapter II

WANTS

IN examining our economic system we will begin by considering the basic fact that all organisms have wants which they desire to satisfy.

Every organism has its own inherent nature, so some of its wants are peculiar to itself and differ from those of other organisms. Thus a fish does not wish to graze ; an ox does not look for a place to build a nest ; a stag, unlike a fox, does not raid a farmyard. And the matter is simple enough till we come to the human organism, when we perceive an important difference ; for the nature of human wants not only depends on the inherent nature of the organism but also varies according to the cultural state of the people.

So far as we know, the wants of all other organisms can be satisfied by material things ; many human wants also need material satisfaction only ; but the satisfaction of other human wants is essentially immaterial, and at the outset we must distinguish these from the others.

Wants that demand an immaterial satisfaction may be called social and cultural wants ; these do not necessarily play any part in the economic life of the community. Wants that only demand a material satisfaction may be called economic wants, and it is with these that the economic system is primarily concerned.

The nature of economic wants depends also on the experiences of the organism during the course of its life. Thus some societies build temples ; others never wish to build temples ; others again regard their fathers' desire for temples as foolish and ignorant. Some men like to eat flesh ; others prefer a diet of blood, butter, and milk ; others again have different personal fancies. Some men want printed books, tarred roads, and stone houses ; others have never heard of these things, and, even if they have heard of them, dislike them. They prefer oral legends to printed manuscripts, tracks to roads and railways, and mud huts to concrete palaces.

These things are commonplace, but it is essential to remember them, or there will be a risk of petrifying what is fluid. Nothing is permanent ; everything is in a state of flux. And further, we must take care not to judge the nature of any want and to call it a "good" want or a "bad" want. In the nineteenth century economists were not only guilty of these moral judgments (which they were entitled to express as private citizens but not as scientists) but also confused a simple issue by

an excess of zeal. Thus one industrious student divided human wants into "absolute and relative, higher and lower (here is the danger of a moral judgment), urgent and capable of postponement, direct and indirect, positive and negative, general and particular, constant and interrupted, permanent and temporary, ordinary and extraordinary, present and future, individual and collective, private and public.¹ An impressive list indeed; but, having read it, are we wiser than we were before? I doubt it. At any rate what we need to note here is that economic wants are relative, first, to the nature of the human organism, and secondly, to the cultural standards and experiences of each person. In the course of the cultural process different societies have occupied different positions in the cultural scale. In the course of its cultural career a single society has often changed its position in that scale. Within the society some persons have been more culturally developed than others; and their descendants have occupied still different positions in the scale. And whenever there has been a change in the position, the people's standards, and therefore their wants, have changed. Economic wants exist; they differ; they change. That is all that we need recognize. If we try to be more exact than this we shall conceal the plastic nature of the process.

You will notice that I do not analyse the source of economic wants; I simply note that they exist and vary. As a matter of fact they are, or can be, created in many ways, even by supply and advertisement. Further in a society like ours, inured to price-mechanism, wants that were not obvious on Monday may become obvious on Tuesday, having been created, or at any rate brought to the surface of consciousness by a change of price. This price attraction has a dual character: a highly-priced article may tempt us because we think that a higher price implies a higher quality; contrarily, we may be inclined to want a thing because its price seems so low that it must be worth what is being asked for it. So it is possible to say that in our society wants are often created by price.

The attitude of an organism to a thing it wants is different from its attitude to a thing it does not want; and I express this difference by saying that on a thing it wants an organism places value. If a thing is wanted, it has value; if it is not wanted by any one anywhere it has no value. Just as wants are relative to the inherent nature of the organism, so also is value; and, just as wants are also relative to the cultural standards of each person, so also is value. Human wants exist, differ and change; so also value exists and differs and changes for the

¹ The list is Hermann's, and is quoted by A. Marshall. *Principles of Economics*, p. 91, n. 1.

same reason and in the same manner. And this is naturally so for the one is a reflection of the other. Without want there can be no economic value.

Value is a subject on which much has been written, and there exist many theories of value, including Marx's theory of surplus value, which is not really value at all but simply profit. These various theories of value, combined with some inexactitude in the use of the words, have created in the plain man's mind an impression that "value" is a most mysterious thing. But in the sense in which I use the word, value is not a mysterious thing at all; it is merely the correlative of want.

I do not propose to analyse the origin of value any more than the origin of want. I simply note that a motive called value exists.

But there are two kinds of value, *use-value* and *exchange-value*; and this dual nature of value divides material goods into *utilities* and *commodities*, between which there is an important and fundamental difference.

A *utility* is any object that satisfies a human want. It may be organic or inorganic, natural or artificial, it does not matter what it is. It may be wanted by a single person or by a group of persons; it does not matter who wants it. If it satisfies a human want, it is a utility. A spear, potato, bushel of corn, pint of milk, length of woven cloth, typewriter, coffee-grinder, house, cathedral, wireless set, chemical laboratory and any other thing that happens to satisfy a human want, all are utilities.

No object is a utility in itself; it becomes a utility in a certain place at a certain time because someone wants it. An object wanted in one place may not be wanted in other places; in that case it is a utility in one place only. Or it may be wanted in one century and not wanted in the succeeding century; in that case what was once a utility has ceased to have that character. To be a utility, an object must be wanted by someone, in some place, and at the present time.

A utility need not satisfy a want directly; it may merely be the means of producing another utility. Thus no man wants to have a loom for its own sake; he wants it because by its means he can transform spun wool into woven cloth. Similarly, a man does not want a potter's wheel for its own sake but because it enables him to throw pots. All the same, though not wanted for their own sakes, looms and potters' wheels are utilities if any one wants them even indirectly, and this is true of any other machine of any kind. If a man, or a group of men, wants something, it is a utility, and, because someone wants it, it has *use-value*. *Use-value* is the quality attached to anything that is wanted now. If no man wants a thing it has no *use-value*; and a

utility may therefore be defined as an object that has use-value.

Now if a man, assisted by his wife (or wives) and children, can supply all his own economic wants, grow, kill, and cook all his own food, ferment his own liquor, make his own clothes, build his own house, and till his own land, there may be no need for him to depend on other men for the supply of his utilities. And if he can possess and serve all his own sacred places, sing his own prayers, utter his own incantations, train his own children, tend his own sick, and dispose of his own dead, he has no need to ask any man to perform cultural service for him. But I doubt if such a case is known. The human organism tends to be gregarious; within the group no man is sufficient to himself. True, in an extremely lethargic society, a family may produce all its own utilities and only rely on outside help for the performance of its cultural services; but even this, I think, is rare. In most societies, certainly in all energetic societies, a man does not produce all the things that he wants; he relies on other men to produce some of them for him; while he produces, or helps to produce, the things that they want. Utilities are then exchanged—corn for hides, hides for hoes, hoes for flesh, flesh for roots, roots for corn, and so on. Under these circumstances a utility becomes a *commodity*. A commodity is a utility produced by one man, and wanted and consumed by another man who gives in exchange something that he has produced. Or the contracting parties may be two groups of men instead of solitary individuals.

When men exchange their utilities in this manner they place on them a value that is different from use-value, for they have to decide how much utility A shall be given in exchange for utility B. No exchange can take place till the respective producers have agreed on this vital point. This second value is *exchange-value*. Exchange-value is the value attached to a utility when it is exchanged for another utility, and as soon as a utility has exchange-value it becomes a commodity. Indeed, a commodity may be defined as a utility that has an exchange-value. All utilities are not commodities but all commodities are utilities. To be a commodity, a utility must be exchanged or exchangeable for another utility or utilities.

Exchange-value, in the abstract sense of the term, is merely a quality that attaches to an exchangeable utility, but we can also speak of the exchange-value of a commodity. Used in this sense, the word denotes goods for which the commodity can be exchanged. It follows that when we want to express the exchange-value of a commodity we always have to speak in terms of something else.

If I ever use the word "value" without qualification, it is to

exchange-value that I refer, but for the sake of clarity I will use the full term unless its use would overburden a sentence and so obscure the sense of what I have to say.

The exchange-value of a commodity is not an absolute but a relative thing; it varies from place to place and from time to time. Moreover, if no one will give anything in exchange for an object that has hitherto been a recognized commodity, the object ceases to be a commodity, and becomes a mere utility. If its maker does not want it, it ceases to be even that. Use-value and exchange-value continually come into existence, change, and disappear.

* * * *

Some economists are not always careful in their definitions. The difference between what I have called a *utility*, which has *use-value*, and a *commodity*, which has *exchange-value* also, is fundamental; yet you can read many economic text-books without coming across a clear description of it. Indeed Friedrich Engels is one of the few men to define what he means by a commodity.

In a note added to what Karl Marx says in *Capital* (trans. E. and C. Paul, i. 10) Engels says: "To become a commodity a product must pass by way of exchange into the hands of the other person for whom it has a use-value." That is both clear and satisfactory. But Engels seems to have overlooked the fact that Marx himself (op. cit., i. 3) has already defined a commodity as "an external object, a thing whose qualities enable it, in one way or another, to satisfy human wants." The trouble is that in a later passage (op. cit., i. 62) Marx says that "articles are not commodities before the act of barter. Only then do they become commodities." Perhaps Engels was trying to remove the inconsistency.

The confusions in Marx's mind are also apparent in the way he speaks of use-value. In *Capital* the word denotes both a wanted object and the quality possessed by the object. Thus "the utility of a thing makes it a use-value" (op. cit., i. 4); again, "the form of direct barter is X use-value A equals Y use-value B" (op. cit., i. 62). In such passages "use-value" is employed to denote the external object elsewhere called a commodity. To that extent, so far as Marx is concerned, a use-value and a commodity seem to be the same thing. Confusion arises because (a) in later passages he uses the word "commodity" in the more limited sense quoted above, (b) he also employs the word "use-value" to denote the quality possessed by a wanted object; e.g. (op. cit., i. 4): "Use-value is only realized in use or consumption."

In his Introduction to the translation of *Capital*, G. D. H. Cole

says: "Karl Marx's *Capital* is not an easy book to read. It is difficult because it deals with a highly difficult and abstract subject-matter . . . Marx's mind was at once highly abstract and highly critical."

I regard such comments as unfortunate. Marx performed a great service when he described the way in which our own economic system works, and there is nothing difficult about the subject-matter of his book. Any difficulty in the reading of it arises from the author's loose phraseology and from his great verbosity. Marx was a profound but not always an exact thinker. Moreover, what he had to say could have been said in a quarter of the space. Except for these things, *Capital* is an easy book. Such comments as Cole makes are likely to prevent people from studying it, which would be a pity.

A. Marshall, *Principles of Economics*, p. 92, uses the word "utility" as the correlative of want. With him the word denotes the quality a wanted object possesses. He does not use any special word to denote an object that possesses utility. Moreover, "Commodity" has no place in the Index to the *Principles*. Nor does Marshall define it, though he often uses it.

F. W. Taussig, *Principles of Economics*, i. 116, also employs the word "utility" to denote the quality a wanted object possesses: "It has utility—it fills a want." He does not use any particular word for an object that fills a want. He continually uses the word "commodity" but does not define it, and it has no place in the Index of his two-volume book. I received the impression that he derived many of his ideas from Marshall.

C. Gide, *Principles of Political Economy*, trans. E. F. Row, p. 38, also employs "utility" for the quality a wanted object possesses. He also fails to define a commodity, and the word has no place in the Index of his book. This is surprising, for Gide's work is in many other ways a great delight.

In deciding the sense in which I should use the words I have defined, I have greatly profited by a study of *Capital*. The words are vital to any discussion of economics, and it seems a pity that Marx's inconsistency in his use of them should often have concealed the superiority of his intellect over that of some orthodox text-book writers.

MONEY AND CURRENCY

IN considering any economic phenomenon, it is always best to begin by asking what happens when commodities are directly exchanged. That is the transaction from which all economic systems, however complicated, have developed.

When men exchange commodities, they give what they do not want in exchange for what they want ; or what they want less in exchange for what they want more. The only conditions that must be fulfilled are, first, the existence of unsatisfied wants, and, secondly, agreement in regard to the value of the commodities that are being exchanged. This exchange-value may be specially arranged for the occasion or commonly recognized among all members of the society ; that does not matter. These two conditions being fulfilled, any commodity can be exchanged for any other commodity. Thus there is no limit either to the number or to the magnitude of the transactions. Provided that unsatisfied wants exist, and men are ready to give, in exchange for what they wish to receive, an agreed quantity of what other men need, any commodity can be exchanged in any quantity for any other commodity. X commodity A is simply exchanged for Y commodity B.

In practice, however, the direct exchange of commodities has usually been found inconvenient, and it has been the custom, even among less energetic societies, to select one commodity in terms of which the exchange-value of all other commodities could be expressed and for which any other commodity could be exchanged at any time. This commodity has acted as the medium by means of which commodities have been exchanged, and is called *currency* ; for it has circulated, and so has been current, among all productive members of the society.

The difference between a direct exchange and an exchange by means of currency is that in the former case the producer or possessor of a commodity only consents to exchange it for something he wants. In the latter case he consents to receive a supply of currency which at some future time he is able to exchange for what he wants.

In any orthodox text-book on economics money is described as having three functions : that of acting as a measure of value, as a standard of value, and as a medium of exchange. This threefold definition of money is not acceptable, for though money is a measure and a standard of value, money never acts, and has never acted, as the medium of exchange.

In the orthodox text-book the word "currency" is used as if it meant the same thing as money. Actually the things called currency and money behave in different ways. The origin of the error is plain. When a commodity-currency or a metal-currency is used, the selected object acts as the medium of exchange; the amount of it that changes hands expresses and measures the value of the exchanged commodities. Thus the same object or objects serves two functions. The functions are distinct, but, when a commodity-currency or a metal-currency is used, they are performed by the same object, which can thus be called currency or money at will. And for this reason orthodox economists, who base their conclusions almost entirely on a study of metal-using peoples, always identify currency and money. But when cheques are used as currency the functions are seen to be separated, and the difference between currency and money is at once apparent. The written cheque acts as the medium by means of which the commodities are exchanged; that is the function of currency.

The cheque is an order to transfer the figures from the ledger-page devoted to the person signing the cheque to the ledger-page devoted to the person in whose favour the cheque is drawn. When it has carried the figures from one page to another, the cheque has done all the work for which it was designed; so it can be destroyed. But the figures remain and cannot be destroyed; they can only be amalgamated with other similar figures or transferred to a third page. The figures on the cheque state and measure the exchange-value of the exchanged commodities; that is the function of money.

I hold that the cheque is currency and that the figures are money.

(The expression and measurement of exchange-value is the only function that money performs; any other purpose it may serve is derivative from this source. Thus money is used to denote price. But price, unless it is the same as exchange-value, is merely a personal assessment that a man places on an object he happens to possess. Many objects, such as a second-hand motor car or a horse at a country fair, have prices, but they are not commodities till someone has agreed to purchase them. Till then, they have no exchange-value.) If, however, someone agrees to pay a price for them, they at once have an exchange-value, and the money paid for them, whether it is the same as the original price or not, is not price but exchange-value expressed in terms of money.

This holds good everywhere at all times. I am aware that in our society the exchange-value of many necessary commodities is *not* a matter of agreement but forced upon purchasers by vendors in a position to dictate price. But this does not alter the truth of what I

have said. Price, unless it is the same as exchange-value, does not enter into the discussion of economics.

The significance of money being a convenient method of stating and measuring exchange-value should not be lost. Consider a bridge. Some men say that a bridge cannot be built without money. Hundreds of bridges have been built by people who have never used or even heard of money. To build a bridge, material and human energy alone are required. The function of money is to state and measure the exchange-value of a bridge that has already been built. The same applies to tanks and guns.

But, though a bridge can be built without money, no man or group of men in a currency-using society can come into possession of a bridge unless he or they can transfer to its producers the money that expresses its exchange-value. Money is vital to the possession but not to the production of a bridge.

When commodities are not directly exchanged, the use of money does not alter; there is merely an extra wheel in the machinery. In return for what he has produced, or helped to produce, a man does not receive a direct supply of other commodities but a supply of money. This money expresses and measures the exchange-value of what he is entitled to receive in return. In other words, it states the extent of his purchasing-power. This purchasing-power is not a different thing from exchange-value; it is the same thing. Money states and measures the exchange-value of commodities that have been produced; by derivation it also states and measures the purchasing power of producers. But that is only because it states and measures exchange-value. Money has only one function; any other purpose it may serve is derived from this source.

Money is not necessary to men; it is merely a convenient device. Just as currency only exists in order that commodities may be exchanged more conveniently, so money only exists that their exchange-value may be compared more easily. Commodities can be exchanged without currency and their exchange-value compared without money. Purchasing-power can also exist without money. Money is merely a human device to assist the living of human life.

Some men try to frighten us by pointing out that we spend much money, say X million pounds, on drink, tobacco or some other thing. Actually these things change hands in the normal course of commodity-exchange, but the publicists to whom I refer speak as if the money was somehow wasted, and, having been spent, disappeared. Let it be said, then, that when money is spent it is merely exchanged. The purchasing-power it expresses does not disappear; it is merely

transferred to another person or persons. Whether it be spent on beer or Bibles, the money is not lost.

There is another variation of the "disappearance" cry.

In our society now, direct taxation of private citizens is heavy, and some publicists, disliking it and seeking argument against it, speak as if the money paid in direct taxes was lost. When direct taxes are paid all that happens is that money is transferred under compulsion from one group of persons to another group. None of this money is lost, and most of it remains in our own country. Far from disappearing, it continues to circulate freely; the only thing is that the law changes the identity of those that control the manner and direction of its circulation.

The orthodox confusion between money and currency goes deep. Thus, most economists are accustomed to speak at great length about money issue and also about currency-issue. Confusing money and currency, they always speak as if these two questions were the same; but since currency is a different thing from money, its issue is an entirely distinct affair never to be confused with money-issue.

Many publicists, and some economists, confuse not only money and currency but also the different forms of currency. There are at least three different forms of currency: commodity-currency, like gold or any other metal; token-currency, like the half-crowns used in Great Britain now; and cheque-currency, by means of which most British transactions are now closed. These three things, being essentially different, naturally behave in different ways, yet you can read almost any economic text-book without discovering the fact. Thus, when writing about money, a publicist will write in one sentence of token-currency, in the next sentence of metal-currency, and in a third sentence of cheque-currency; but in each case he will use the word "money," and an inattentive reader is apt to conclude that the same thing is being referred to; whereas the writer is really referring to three different things, none of which is money.

Again, in trying to explain the behaviour of money, a publicist will sometimes formulate, or refer to, a principle based on a study of the way in which a metal-currency behaves; he will then apply this principle to the behaviour of cheque-currency. Of course, the principle does not hold good, and there is not the slightest reason why it should be expected to do so. But the publicist feels that he has discovered in the economic world a suggestion of anarchy which needs explanation; and, to account for it, he begins to hypothesise the influence of forces that have never yet been proved to exist. If he is a reformer he often goes further, and suggests some method of dealing with the situation

that these hypothetical forces are alleged to have created, till the plain man's head begins to ache and he feels he lives in an incomprehensible world. But all that has happened to make our heads ache is that the publicist has confused two different forms of the same stuff and then blamed Nature for his fault.

It is this confusion of thought, I submit, which is responsible, at least in part, for the growing impression that money is a mysterious subject which can only be discussed in esoteric circles. There is really no more need to be recondite in writing about money than in teaching the alphabet.

Noted economists are as misleading as the journalists. You can read the writings of, for instance, Karl Marx and Alfred Marshall, without coming across a single sentence containing even a hint that there is a difference between currency and money and between the different forms of currency. Marx, indeed, seems to have regarded the use of a metal-currency as inevitable; and he always speaks of it as if it were money. "Circulation sweats money": this is one of his favourite maxims, submitted as an undeniable and unalterable truth.¹ But it is only true of a commodity-currency and a token-currency; it is not true either of money or of cheque-currency. When a commodity like gold is used as currency the same piece of metal is used over and over again, and has, so to speak, to work hard, and is thus sweated. Constant rapid circulation also sweats tokens. But when a cheque-currency is used the process is quite different. The money conveyed by the cheque is transferred from one ledger-page to another, and as soon as this has been done the cheque is cancelled and never used again. No cheque is ever sweated, for it never does more than one piece of work.

Students of *Das Kapital* are misled if they do not recognize this serious shortcoming in Marx's work. His analysis of the manner in which our own economic system works, though verbose, is excellently done; but, since he failed to define the difference, first, between money and currency, and, secondly, between the different forms of currency, his creative suggestions have little value for energetic societies. No wonder the Communist Party in Russia has had to modify its original plans. The interesting point is that this modification has involved a return to ideas for which Marx himself had nothing but contempt.

So far as currency is concerned, we ourselves now live in a kind of

¹ E. i. *Das Kapital*, trans. E. & C. Paul, i. 91.

The writings of Marx must always be read in the light of two important facts:

(1) He wrote before cheques were commonly used as currency,

(2) His (with Engels) *Manifest der Kommunisten* (1847) was published twenty years before *Das Kapital* (1867). The contents of the latter owe much to the ideas underlying the emotional appeal of the former.

economic half-way house. For the most part we use a cheque-currency, but, when we issue currency, we act either on no principle at all or in accordance with the principles formulated for the use of commodity-currency (gold or some other metal). We completely disregard the fact that most of the currency issued by our central banks is token-currency. A similar confusion of thought is apparent in the habits of our deposit-bankers, who administer and issue a cheque-currency but behave, at least so far as their speeches and balance sheets are concerned, as if they were administering a commodity-currency and did not issue any currency at all.

The reason is that our economic institutions have developed haphazardly; we have preserved without reflection many habits inherited from our metal-using forefathers and have made little or no effort to adjust ourselves to the revolution caused by the introduction of cheque-currency. Indeed, many persons have not yet realized that the introduction of cheque-currency *was* an economic revolution.

What do the figures on our cheques represent? Their character varies according to the geographical area in which the writer of the cheque lives, and in Great Britain consist of pounds, shillings and pence. What is a pound?

In 1844 Sir Robert Peel said: "According to the ancient monetary policy of this country, that which is implied by the word 'pound' is a certain definite quantity of gold, with a mark upon it to determine its weight and fineness, and the engagement to pay a pound means nothing, and can mean nothing else than a promise to pay the holder, when he demands it, the definite quantity of gold."¹

At that time the people of this country used a commodity-currency, and Sir Robert was correct in saying that a pound then meant nothing else than a certain quantity of the metal used as currency. But when he implied that a pound could mean nothing else than a certain quantity of gold, the limitations of his outlook are obvious, for a pound does not mean that now. Then what does it mean?

This question I will try to answer.

When men decide to have a special medium of exchange the way in which they exchange their commodities naturally alters a little, for in return for what they have produced they do not receive the commodity they desire to consume but a supply of the commodity selected to act as currency. Some of them, of course, may want this commodity for its own sake, but whether they want it for its own sake or not, they are always willing to accept it; for they know that their possession of it will enable them to secure in exchange the commodities they do want.

¹ F. Schuster. *The Bank of England and the State*, p. 19.

In other words, even if they do not want the commodity for its own sake, they are always ready to accept it for the sake of its recognized purchasing-power.

In the past the commodity chosen to be the medium of exchange has always been the one judged to be the most convenient. Different societies have naturally chosen different commodities to act as currency, and the selected object has usually been one that has either been common in the neighbourhood or regarded with special reverence. Thus cowrie shells are valued by many men, and in New Guinea are still used as currency. Skins have been another favourite medium; leather, too, has often been used. Live cattle, goats, and sheep have also been popular, and are still used in the Sudan and among the Bantu-speaking peoples of Africa.

Cattle, shells, skins, goats, and sheep are not the only objects that have been selected to act as currency; natural produce of all kinds has been used; and in remote parts of Norway, even to-day, corn and tea are employed. I myself have been in countries where men use bars of salt and chickens. I found it very tiresome, for the salt used to disappear and the chickens used to die, but the natives accepted their inconvenient institutions without complaint for they had neither the energy nor the courage to change their ways. If we examine the historical careers of energetic societies we find that they have often abandoned one form of currency in favour of another. This is to be expected. Any form of currency is only adopted for the sake of human convenience, and we cannot be surprised if energetic people have decided to discard a currency like cattle, bars of salt, or chickens in favour of a more convenient one.

The trouble with cattle, bars of salt and chickens is that they wear out. Moreover, cattle and chickens cannot conveniently be divided, so they are almost useless when men want to conduct a multitude of small transactions. Under the circumstances some form of metal is obviously to be preferred. Metals last longer, can be divided into small parts without destruction of their value, and are easily passed from one man to another. The advantages are plain, and in the past most energetic societies have eventually adopted some form of metal as currency.

Iron, copper, silver and gold have been the favourites.

When a metal currency is first introduced into society it passes by weight. There is no exception to this rule, for which the reason is obvious. The metal is only a commodity, and, before any commodity can be exchanged for any other commodity, agreement must be reached on the question how much commodity A must be given in

exchange for commodity B. So the weight of a piece of metal that is received in exchange for another commodity is a vital matter. But it is clearly inconvenient to have to weigh each separate piece of metal, though some societies have sometimes done so; it is more convenient to cut the metal into small pieces and to place on each piece a mark to certify its weight. But pieces of metal also vary in quality; so when a metal currency is minted into coins a hall-mark is invariably placed on each piece as a certificate of fineness. If we study the past we find that this has been done by all the most energetic societies. Experience has shown, too, that the most convenient shape for a piece of metal is round. So, among people who have used a metal currency, round coins, bearing a stamp to certify their weight and fineness, have been the rule.

In 1220 were issued halfpennies and farthings which were, for the first time, round. Formerly these coins had been square or oblong. The issue of these small coins was necessary because the commodities that were exchanged were still of low value. Indeed, when in 1257 Henry III issued some gold pennies the citizens of London protested, for the value of the coins was so high as to render them inconvenient, if not useless. Almost a century elapsed before another attempt was made to introduce gold currency. In 1343 Edward I issued gold nobles. But he would never have succeeded in getting them accepted if the growth of trade between England and Flanders had not made it desirable to establish a uniform currency in both countries. Even then, several hundred years went by before gold ousted silver as the recognized standard.

In 1663 gold "broad" pieces, popularly known as "guineas" because the gold came from West African territory controlled by the Guinea Company, were introduced. But their introduction caused some currency confusion; for their exchange-value was fixed too low in terms of the silver shillings. Moreover the silver coinage was much clipped and worn and therefore worth less than its reputed value. The result was that the guineas, which were only supposed to be worth 20 shillings each, soon rose in value till they reached 30 shillings each. Furthermore, in accordance with Gresham's law that when two coinages circulate freely the weaker drives out the stronger, the guineas tended to disappear, being either melted down or sold at their bullion value. In 1696, on the advice of John Locke and Isaac Newton, the whole currency was reorganized, but the exchange-value of the guinea was this time fixed too high, 21 shillings and 6 pence, and it was not till 1717, when Newton was Master of the Mint, that the matter was finally settled. The guinea then became worth 21 shillings.

Gold then remained the standard, alongside silver, till 1816, when

the currency was again reorganized after the confusion created by the Napoleonic wars. It was then finally decided that gold was preferable to silver. The sovereign, worth 20 shillings, was introduced, and the guinea disappeared. Incidentally, the value placed on the guinea in 1717 fixed the well known "standard" price of fine gold, £3 17s. 10 $\frac{1}{2}$ d. per ounce. The importance of this figure is appreciated when we remember that it was incorporated in the Gold Standard Act, 1925. In that year there was a fundamental revolution in our currency system, but it passed quietly, probably because few men realized what was happening. At any rate only a tiny part of the electorate knew of it. The ignorance of electors on these important questions is one of the most interesting and probably one of the most significant aspects of our so-called democratic institutions; they sadly need education. It would be a great advantage, too, if politicians knew something about the history of the country they govern. To hand over the government of any society to such men as we select is like entrusting a garden to the care of men who have no knowledge of how plants have grown in the past.

It is an extraordinary fact that, though gold and silver have been used as currency so often, they are by far the most unsuitable metals for use as currency. Both are soft, and, when passed from hand to hand, soon shrink in weight, and therefore, in exchange-value. There may well have been some sacramental reason for the original adoption of silver as currency, but, so far as my knowledge goes, no information is available on the subject.

The Hellenes and Romans appear to have used gold because gold was used in Egypt, where it was regarded as the symbol of life, if not as a lifegiving substance. The medieval city-states almost certainly adopted it because the Romans had used it, and the English first began to use it because it was current in Europe. For silver similar data do not exist; but, whatever the reason for its adoption, its softness, like that of gold, has always been recognized, and, to give these magic metals the hardness that is vital to a metal currency, an alloy, varying from one twelfth to one tenth, has always had to be added to them.

(This necessity for an alloy has encouraged kings and governments to reserve to themselves the sole right of coinage; for by that means they have been able to play a cowardly but profitable trick on their subjects. This trick is the debasement of the currency; it constitutes the first argument against the use of a metal currency.)

When a metal currency is coined, the question naturally arises, "Who shall issue the certificate of weight and fineness that each coin must bear?" The answer is that it does not matter at all, provided

that the man who issues it is trusted by his fellow-men. So far as the use of a metal currency is concerned, there is no reason why private citizens should not be permitted to mint their own coins; and this in fact has often been done. All that a commodity-producer requires is the certainty that in return for his commodity he is receiving the agreed value, and, so long as the weight and quality of the coined metal is correct, all is well, whoever places the mark on the coins. The reservation of coin-issue to the king or government is in many ways convenient, for it ensures a uniformity that may be lacking when coins are privately issued; but it is not imperative. And if we examine the history of metal-using peoples, we find that kings and governments have reserved to themselves the right to issue coins, first, for the sake of this uniformity, and secondly, for another reason not unconnected with their own profit.

The debasement of the currency was a favourite device with the Roman Emperors. The trick became such a habit that between the time of Augustus and that of Constantine the gold *aureus* descended from a 45th to a 72nd of a pound. During the same time the alloy in silver coins was increased till it constituted nearly three-fourths of the coin.

English silver coins were debased by Edward I, Henry VIII and Edward VI; between 1300 and 1600 the amount of silver in a silver penny was reduced by nearly two-thirds. Silver coins have also been debased since 1914 and now contain merely a fraction of the silver they originally had. Indeed, they are no longer metal-currency at all; they are tokens. Still more recently, coins have been debased in the United States of America, in an endeavour, we are told, to make the metal currency work better. And the debasement trick can be played, it seems, to any extent, provided that commodity-producers permit it; the debased coins are made "legal tender" and are given what is called "liberating power," that is, the power to close a transaction finally and legally.

If we remember that honest metal coins are merely stamped commodities that have been selected to act as the medium of exchange, we soon perceive what rulers and governments gain by increasing the amount of alloy and decreasing the amount of metal in a coin. The most important advantage is that their debts can be paid with greater ease; for the bullion they possess can be made into a larger number of coins. The correct number of coins is handed over to a creditor, but, since the weight and quality of the coins are less, their exchange-value is also less, and when a debt is paid by means of debased coins its total is decreased by the amount of the debasement.

If a private person were to issue debased coins his clients could and probably would refuse to accept it; but a ruler or government can make a debased coinage legal tender, which no man can refuse to accept in payment of his due. It is this exclusive right to issue the stamp on the coins that has enabled the debasement trick to be played.

The trick, it must be noted, is sometimes popular, at least it can easily be made popular among ignorant people. For a man who earns a wage or an income can have his income raised, and the mere handling of the larger number of coins will often persuade him that he has more purchase-power than he had before. He soon discovers his mistake, of course, for the general level of prices rises. Commodity-producers have to receive a greater number of coins to make up the correct quantity of the metal; and it is when prices rise that wage-earners discover how they have been duped. But then it is too late, Each man receives a larger number of coins, but the total amount of metal in those coins is not greater than that contained in the smaller number of the old coins; so he has to give a larger number of the new coins in order to procure a supply of commodities.

It must be said, however, that besides affecting prices, debasement does not embarrass the exchange of commodities. The Romans found the *aureus* of Constantine just as convenient as the *aureus* of Augustus; the only thing was that the former contained less metal, and therefore had a smaller exchange-value and less purchasing-power. In a similar manner we find that our present coins are just as convenient as those we used in 1914; the only difference is that we get less in exchange for them. It is most important to remember this. Any form of currency is only adopted because it is convenient; the particular form of currency adopted by any society does not matter so long as it is the most convenient form. Its exchange-value or purchasing-power is quite immaterial, provided that it remains the same.

We have seen that one of the disadvantages of a metal currency is that rulers and governments can alter, to suit themselves, the amount of metal in a coin, and so reduce its purchasing-power.

We have also seen that before one commodity can be exchanged for another an agreement must be reached on the question how much commodity A shall be given for commodity B; and, further, that when a commodity is used as currency the exchange-value of all other commodities is expressed in terms of it. This expression is what we call *price*. Now metal is only a commodity; and, like other commodities, it sometimes varies in price. So in a metal-using society the prices of all other commodities are likely to rise or fall for no other reason than that the price of the metal rises or falls. If there is an abundance of

it, those who possess it are usually ready to take less in exchange for it; if there is a shortage of it they probably want more for it; and any change in its exchange-value must create a corresponding change in the prices of all other commodities.

Let us get this clear. In a metal-using society price is the exchange-value of a commodity expressed in terms of the metal used as currency. Thus, whenever the exchange-value of the metal rises, the price of all other commodities falls, for the purchasing-power of the metal goes up. Whenever the exchange-value of the metal falls, prices rise; for the purchasing-power of the metal is less. Think of the human misery such changes create!

If, when the exchange-value of the metal changed, all prices rose or fell immediately and simultaneously, and if the rise or fall in prices was proportionate to the amount of the change, all might still be well if the society were a comparatively sluggish one. But, in an energetic society, there are such things as contracts and credits, and, under such circumstances, a rise or fall in prices (even if it is immediate, simultaneous, and in proportion to the fall or rise in the value of the metal) is a most embarrassing and inconvenient event. And it is doubtful if the change can ever be immediate and simultaneous. Some men's incomes are fixed, and it takes time to set in motion the machinery that fixes them. Moreover, some incomes are not fixed by reason but by custom, which is notoriously slow to change.

Existing contracts, too, can hardly be changed in a moment; nor can a contract be so drawn up as to make allowance for all future contingencies. Even if existing contracts could be satisfactorily adjusted to meet the new conditions, and even if the incomes of all income-earning men could be immediately changed by the correct amount, insuperable difficulties would still exist, for, when prices rise or fall, the position between creditors and debtors must alter and this cannot be rectified. One party or the other is sure to be adversely affected. So far as the exchange of commodities is concerned, it does not matter whether the level of exchange-values, expressed in terms of the metal used as currency, is high or low; but it does matter if it rises or falls; and when a metal is used as currency this is continually happening.

When we consider the matter dispassionately it seems difficult to believe that intelligent men should ever have subjected themselves to the distress that such a currency creates; yet when we look back along the stream of time, we find that, far from abolishing the use of metals, men have clung to them with dumb, unquestioning tenacity. Stoically, though quite needlessly, they have tolerated the suffering that has inevitably occurred whenever the exchange-value of their metal has

changed, and they have even ascribed to God, or to some hypothetical power, the responsibility for their troubles. Yet these troubles have never been part of the inherent nature of things; they have been the direct result of using metal as currency.

There is another point to be made about a metal currency.

If commodities are produced and exchanged at a constant rate, and the supply of metal is sufficient to effect those exchanges, the convenience of a metal-currency is only reduced by the factors I have mentioned; but as soon as the members of a society become energetic, they always wish to produce and exchange an increasing number of commodities. In that case the disadvantages of a metal-currency are so great as to make its use downright impossible.

Consider what happens. If the number of exchanges increases, and metal is used as currency, a great quantity of the metal is required to facilitate the increased number of exchanges. This metal is either available or not. If it is available, and the quantity can be increased as fast as the production of commodities increases, everything will go well provided that the rulers do not debase the currency, and the exchange-value of the metal remains constant. But can it be made available? If not, can its exchange-value remain constant?

Consider first what happens if an increased supply of the metal is not immediately available.

As soon as there is an increase in the number of commodities that men produce and wish to exchange, there is an increased demand for the metal, which, if it does not increase in quantity, rises in price. The price of all other commodities then goes down. In relation to one another the exchange-value of these commodities remains the same, but in terms of the metal used as currency their exchange-values fall. So the society must either revert to the policy of direct exchange (barter) or endure a general fall in the price-level. The former is almost out of the question; so in the past the latter has usually been the case. Prices have sometimes fallen till it has seemed hardly worth while to produce anything at all; stagnation and despair has been the result.

Soon, however, the situation has adjusted itself. The number of exchanges has been reduced till it has reached the level at which the available quantity of metal is sufficient to facilitate them, and the society has then settled down to its limited life with a sigh of relief. But if it has preserved its metal-currency, and has not increased its stock of metal, the same situation has arisen again whenever the society wished to increase the amount of its commodity-production. Thus the result of having a metal-currency is that an energetic people, anxious to

produce and to exchange an increasing number of different commodities, have been reduced to a condition of stagnation and despair because the total amount of those exchanges exceeds the amount of the metal that they happen to have chosen to act as currency. A perfect picture of human incompetence!

In the eighteenth century our own ancestors began to produce, and wished to exchange, an increased number of commodities. Gold and silver were used as currency, but a sufficient supply of the metals was not available when it was wanted, and things would have come to a pretty pass if a few bright men had not conceived the plan of issuing pieces of paper on which they wrote a promise to pay gold on demand. They never thought of abandoning gold as currency ; they were trying to patch the system so as to make it work ; and the pieces of paper they issued were used as currency.

Naturally the situation was greatly eased ; but it would never have been eased at all if each note had actually represented gold ; for in that case there would have been no increase in the amount of available currency. As it was, a large number of the notes did not represent gold at all ; so there was an increase in the amount of currency, and trade proceeded briskly. Traders, of course, did not accept the paper for itself but because they thought it represented gold. They had no intention of abandoning metal as currency and would have been horrified if that course had been suggested. All went well till the men who had signed the notes were asked to produce gold. Of course they did not possess enough of it, and a crisis ensued. No one knew what to do next ; the idea of discarding metal was not mooted ; and many traders were completely ruined because in exchange for their commodities they had consented to receive a few pieces of paper which were worth nothing at all.

This comedy has been enacted on several occasions in our history ; but what seems a comedy to us was tragedy to the men whose lives it affected ; and for that tragedy the use of metal-currency was solely responsible.

Can the supply of a metal ever be increased to the extent required by an energetic society ? There seems to be no limit either to the number of commodities that energetic men can produce, or to the new discoveries that energetic men can make in regard to the use of the raw material. But there is a definite limit to the quantity of metal. On April 30th, 1925, transactions to the value of £263,255,000 were closed in London. Think of the prodigious amount of metal that would have been required to facilitate that vast quantity of exchanges ! In

January, 1925, exchanges to the value of £3,770,864,000 were effected. Think of the inconvenience of transferring that quantity of metal! Even if enough gold had existed in the world, how could it have changed hands in the requisite quantities at the requisite speed?

(For several reasons, then, metal seems to be an unsuitable form of currency for an energetic society to adopt. It lends itself to debasement; it causes chaos in the price-level if its own exchange-value happens to change; the amount of it cannot be increased unfailingly to meet an expansion in the total of commodity-exchange.)

To the latter complaint we must now add its opposite, namely, that when metal is used as currency the amount of it cannot easily be contracted when contraction is vital to the community. We may combine these two complaints by saying that, so far as an energetic society is concerned, a metal currency is unsuitable because it is inelastic.

Experience has shown that, unless the amount of available currency increases or decreases with any rise or fall in the total amount of commodity-exchange, the general price-level is affected by the consequent change in the proportion between the two. This is one of the few inductive conclusions, to which orthodox economists have come. If the supply of currency lags behind the requirements of the commodity-exchange process, the price-level tends to fall; if the supply of currency exceeds the requirements of the commodity-exchange process, the price-level tends to rise.)

Thus, when a metal is used as currency, the general price-level, in addition to being influenced by the exchange-value of the metal and by the amount of metal in a coin, always tends to vary with the proportion between the total amount of available currency and the total amount of commodities waiting to be exchanged. Since there is no way of increasing and decreasing the supply of metal-currency as the state of the commodity-exchange process demands, it seems impossible for a metal-using society to escape such price-fluctuations. There is no inherent need for them to occur, but they do, and apparently must occur unless the quantity of available currency is in proportion to, and only limited by, the total exchange-value of the commodities men wish to exchange. In other words, (unless the currency-system is elastic, the people suffer.)

* * * *

Before proceeding further, I think it would be well if I drew attention to some of the mental habits created in our minds by the institutions organized or administered in a manner suited to the use of a metal-currency. I particularly refer to the institutions we call "banks." When we consider even a small part of our economic

history, say, the part from the sixteenth century to the present day, we cannot help being struck by its haphazard character. Our institutions have never been designed for any special purpose; they have just happened; and this is specially true of our banks. These owe their character to chance. Like the banks of previous civilizations, they are the fortuitous result of an uncontrolled, almost uncomprehended, evolution.

This is well illustrated by the fact that this day we are without a legal definition of a bank. Indeed any definition would only be acceptable to a few persons here now. Other persons here now, and most persons elsewhere and at other times, would refuse to accept it.

The confused nature of our thought about banks and banking is also apparent when we remember that we have two kinds of banks, banks of issue and banks of deposit. The functions of these organizations are dissimilar and have no relation to one another; yet each is called a bank, and when we read the writings of some orthodox economists we often do not know, when they use the word "bank," to which kind of bank they are referring.

The matter is further complicated by the fact that some banks, like the Bank of England, are both issue-banks and deposit-banks. Indeed, in the case of the Bank of England, the separation of the two functions is a comparatively recent innovation. Till 1844 the Bank of England was one; it was only after Peel had persuaded Parliament to pass his famous Act that a distinction was drawn between the activities of the Bank. Only since then the Bank has had an issue department and a banking-department.

The names given to these departments show what changes have taken place in the character of our banking system. The men in the banking department of the Bank of England perform the functions of deposit-bankers; but, if we had asked a man in the early nineteenth century what banking was, he would not have said that banking was deposit-banking. At that time it was thought that the power to issue notes was essential to a bank; a man who did not issue notes was not regarded as a banker; and the name given to the deposit-department of the Bank of England illustrates the change that took place in the meaning of the word in the first half of the last century.

For although an early nineteenth century man would have said that a banker was a man who issued notes, this was not the original meaning of the word. In the seventeenth century it meant something different, just as it means something different now. When the plain man speaks of a banker now, he means a deposit-banker, but he no more understands the changes that have taken place in the meaning of

the word since the Napoleonic Wars than a plain man who lived then understood the changes that had taken place in its meaning since the time of Cromwell. And to this day no man can define a deposit-bank in a manner that would satisfy all other men.

It is possible to say that a deposit-bank is a group of persons who set out to receive currency on deposit, to keep it safely, and to repay it on demand. But that definition, while revealing one of the chief functions of a deposit-bank, makes no mention of its chief business, which is to make advances on security. Yet no money-lender can call himself a banker. On the other hand, any English citizen can apparently go to Somerset House and take out a banker's licence. In practice there might be difficulties, but legally no questions could be asked. The fee being paid, the licence must be granted.

Literally, as the proverbial schoolboy knows, the word "bank" denotes an elevated slope or shelf; in olden times it seems to have been used in reference to the shelf or counter erected by a shopkeeper who was prepared to receive valuable objects for safe custody. In the seventeenth century England was passing through a period of strife, uncertainty and danger. Life and property were insecure, and rich men began to look for a place where they could deposit their metal treasures in safety. It was the custom to keep jewels, coins and other pieces of metal currency in strong boxes. In the time of Charles I these boxes were usually stored at the Mint, but one day Charles I took some of the metal stored there and used it for his own purpose. Unlike his son, who did the same thing a few years later, Charles I replaced the metal, but the Mint never regained its former reputation as a place of safety.

So men turned to the goldsmiths. In the course of their trade the goldsmiths were compelled to have a strong room in which they could store their metal, and after Charles I's arbitrary action the goldsmiths began to use these strong rooms for the purpose of storing other persons' treasure as well as their own. The boxes containing the metal were handed to the goldsmith over his counter and then placed in the strong room. The goldsmith gave his customer a receipt for the box, entered the transaction in his book, and promised to deliver the box on demand.

The principles on which our deposit-banks are administered to-day constitute a development, and not a very profound development, from this simple transaction.

The first change in the character of the goldsmiths' business occurred when the exact contents of the box began to be recorded. Then loose metal was deposited. After that came the acceptance of a definite quantity of metal for a specified period.

The change from "on demand" to "specified period" was an important one; for it suggested the possibility of lending the metal to a third party for the period of the deposit. In the seventeenth century many men wished to borrow metal, and, since they could offer good security in the way of land and other property, there seemed to be little reason why the goldsmith, if he could trust his client to return the metal when it was due, should not lend his other clients' property, especially as he could charge interest on the loan. Was not this a simple way to get rich?

Time passed and steps were taken to refine the system of deposit and loan.

Enterprising goldsmiths began to attract new clients by offering a moderate interest on all deposited metal. This metal was then lent to other clients at a higher rate, and soon the lending part of the business became as important as, if not more important than, the original "safe custody" part. Moreover, intelligent goldsmiths perceived that if they could attract enough clients they could always rely on a certain amount of metal being at their disposal permanently. This discovery also was important; for such metal could obviously be lent without regard for anything else than the financial terms of the loan. In this manner the period for which a deposit was made began to lose its original significance.

In an endeavour to attract new depositors, the descendants of the old goldsmiths began to afford still greater facilities to their clients; soon current accounts became a recognized habit. Under this system, instead of depositing their metal for a specified period, clients were encouraged to leave the metal with the goldsmith indefinitely; and then not to withdraw it all at once, as had at first been the custom, but as they needed it.

This introduction of current accounts necessitated a change in the method of conducting the business. When deposits were made for a specified period, all the metal could be lent for the whole period of the deposit; a proportion of the total deposits could also be lent without much regard for the period of any single deposit; but when current accounts became common a certain proportion of the metal had to be kept permanently in stock; for any customer might demand either the return or the transfer of some metal at any time. This meant, first, that the amount of metal lent had always to be less than the total deposits, and, secondly, that all loans had to be made for as short a time as possible. And out of these two simple facts there arose the two great principles which still control, or are alleged to control, the conduct of English deposit-bankers: (a) resources must be kept as liquid

as possible; (b) a certain amount of "cash" must always be kept in the till, the amount of this "cash" being in direct proportion to the total amount of deposits.)

English deposit-bankers still dislike the idea of what they call "long-term loans"; they still keep, either in their tills or at the Bank of England, a definite amount of what they call "cash." They no longer administer a metal currency; and the meaning of the word "cash" is no longer what it was when the goldsmiths formulated the principles to which I have referred. But those principles have behaved like wine; time has given them strength, till they are now a powerful influence. Our present deposit-banks are large, but their character is the same as that of the little shops in which gold was worked in the seventeenth century.

By the beginning of the nineteenth century there had grown up in the city of London a number of small private banks, which received metal on deposit, lent it to third parties, and made advances on security. These banks were owned by the successors of the goldsmiths, and these men carried on the old tradition. During the next three generations deposit-banking was seen to be a most profitable business, and joint-stock deposit-banks began to appear at an early date. These soon took the place of the small private deposit-banks, which were gradually absorbed or jostled out of existence by their stronger brethren.

Later, in order that the joint-stock banks might make the maximum profit, and in order that their services and resources might be available to all members of the community, joint-stock deposit-banks were gradually amalgamated, till almost the whole of the deposit-banks in our country were owned or controlled by five large companies. But the size of these banks has not made any difference to the principles on which they are administered; and, though most deposit-bankers are said to disregard the old principles in the normal course of their business, all of them are still careful, when producing their balance sheets, to appear as if they kept them to the letter.

Round the mental habits of the old goldsmiths our deposit-bankers have placed a kind of halo, which they fear to remove. Every year, when the shareholders meet to be told what profit has been made during the past year, the chairman and directors of our deposit-banks pay lip-service to the old principles. We are still told that the function of a deposit-banker is to keep safely the possessions of his clients, that his resources must be kept liquid and that the total amount of his advances must be less than the total amount of the deposits he has received. Books are also written on these subjects, warnings issued. Arguments

in favour of a short-term or long-term policy are restated, reforms suggested. The ghost of the goldsmith stands behind each speaker, whose words are nothing but an echo from the dead past. We no longer use a metal-currency; yet so strong is the ancient tradition that our deposit-bankers still behave as if we did.

In connexion with deposit-banking some publicists speak as if deposit-bankers create "credit." Much confusion has been caused by this looseness of speech, which, unfortunately, cannot be disregarded because the word "credit" is so important in any economic discussion that it must be retained. But to use it in connexion with deposit-banking is indefensible. Would-be reformers are especially guilty. Their desire to see some change in our deposit-banking system is evidently greater than their knowledge of that system.

So-called "bank-credit" is an arrangement by which a client is permitted to overdraw his account in return for the deposit of a security. It is money-lending. No deposit-banker ever creates credit, any more than a money-lender creates credit. Our deposit-bankers have done well to deny the charge strenuously. Deposit-bankers make advances on security, and only a man with an imperfect knowledge of the subject can think that they do anything else.

* * * *

Our politicians sometimes declare that some of our economic difficulties arise from a situation they describe as "money lying idle" in our deposit-banks. Such declarations reveal a misunderstanding of what money is. Money is a convenient device for expressing exchange-value; it has no other function. From its performance of this function it derives the power of expressing the extent of a man's purchasing-power. If it is expressing either exchange-value or purchasing-power (which are really the same thing) money is doing all the work for which it exists and therefore can never be idle.

The truth is that the phrase "money lying idle" is a relic of our metal-using days. It could have no meaning except in a society with a deposit-banking system. When one of the old goldsmiths received metal on deposit he used to hire it out to other men who paid him for the use of it, and the metal earned a profit for him. If he did not lend so much as he was able to, some of the metal was idle in the sense that it was not earning any profit, and in this manner, since the metal performed the function of money, there grew up the notion that it was "bad" for money to lie idle. The word "bad" in that context meant that profit was being lost, and when our politicians speak about money lying idle they are merely repeating the old adage of the goldsmiths.

When our deposit-bankers use the phrase, which is very hard

worked, they refer to money they are not hiring out, for most of their mental habits are those of the old goldsmiths. When cheques are used as currency, and the economic system is adjusted to its use, money can never lie idle.

Many other men besides politicians and deposit-bankers use the phrase "money lying idle," but they mean a different thing by it. A well-to-do person probably means that he is not receiving usury on that money; we shall consider this custom later. In the mouths of ordinary publicists, "money lying idle" signifies that people are failing to make immediate use of their purchasing-power. The publicists to whom I now refer regret this habit, which they call anti-social, and there can be no doubt that in our own society it does handicap the process of commodity-exchange.

But if a man does not wish to receive the immediate supply of commodities to which his possession of purchasing-power entitled him, that is surely his own affair; and my submission is that a society is unintelligently organized if it permits its economic life to be adversely affected by such a circumstance. At any rate we should ensure that no handicaps are imposed on those who wish to produce and to exchange commodities by the behaviour of those who choose to postpone till a later date the purchase of the commodities to which their possession of purchasing-power entitles them.

* * * *

When a commodity is used as currency, and therefore also as money, money can be bought and sold; and among some uncivilized peoples (the Gallas are an example) money-markets exist. But in those money-markets what is bought and sold is not money but the commodity that happens to perform the function of money (in the case of some Gallas, salt).

Money-markets also existed in some ancient civilizations and are still extant to-day; but currency changes have altered the nature of the business conducted there. To-day, as in most ancient civilizations, a money-market is not a market in the sense that a meat-market is a market; money is not offered for sale but for hire; and the price of money is not the price at which a commodity used as money can be purchased but the rate at which money can be hired.

The idea of hiring money is deeply rooted in our own economic system, and to this day different groups of men still compete with one another, as the old goldsmiths did, in offering money for hire at different prices.

* * * *

A metal currency served our ancestors well enough for so long as

they remained a comparatively lethargic people, but during the seventeenth century, under the leadership of a dominant squirearchy, they became a very energetic people indeed. They then discovered that a metal currency was not suited to their purpose. After the formation of the Bank of England in 1694 the history of our currency is the story of an unsuccessful effort to make a metal currency perform a task which it can never be made to perform. Many changes were made in the law, various expedients adopted. None was satisfactory; and to this day the trouble has not disappeared.

We can only understand the behaviour of our forefathers, or indeed that of contemporary statesmen, if we bear in mind the lugubrious truth that, whatever sufferings their old habits inflict on them, human beings are reluctant to change. It is the custom to call savages "superstitious." By this is meant that savages have an irrational fear of the unknown and a misdirected reverence for irrational practices. It seems to me that contemporary statesmen are as superstitious in their attitude towards economic affairs as uncivilized men are in their attitude towards the external world.) Uncivilized men are reluctant to discontinue their ancient rites because they fear what would happen if they did so; even so we seem to preserve an irrational currency-system because we fear what would happen if we abandoned it.

If we regard human beings as rational creatures the story of our currency-history during the past hundred years seems incredible; but, if we remember that men are frightened of anything to which they are unaccustomed and that they are fearful of change, the story, though perhaps depressing, is at any rate simple to understand.

In the early nineteenth century, as I have said, there was a fixed idea in men's heads that the power to issue notes was essential to a bank. So the Bank of England, being the only joint-stock organization that possessed the power to issue notes, was regarded as having a monopoly of joint-stock banking. But the successors of the old goldsmiths had found it extremely profitable to receive metal on deposit from one man and to hire it out to another man, and in 1822 they realized that the Bank of England's Charter did not forbid the formation of joint-stock companies for the purpose of carrying on this business. Many such deposit-banking companies were therefore formed.

The proprietors of the Bank of England saw the danger, protested, and did everything in their power to embarrass the new companies; but they were powerless to prohibit such formations, and the companies flourished greatly. Their profits were large, and they soon began to acquire a controlling interest in the business of some of our

private country bankers. In this way they secured the power to issue notes. By doing so they trespassed more than ever on ground that the Bank of England regarded as its own ; indeed, the privileges conferred on the Bank by its Charter ran the risk of being nullified. But Parliament, still dominated by the squirearchy, did not take any notice till pressure was put on it by other and stronger forces than the proprietors of the Bank of England.

At this time bank-notes were not legal tender, but, as there was not enough metal in the country, some form of additional currency was needed to facilitate the exchange of commodities, so, since the bank-notes were the only other things available, every one used them. But there was no limit to the number of notes a private country banker could issue, and the time came when some country banks, particularly, perhaps, those controlled by the new joint-stock deposit-banks, began to issue a far greater number of notes than their clients or their critics thought wise. Doubts were then expressed in regard to the solvency of these banks ; gossip spread, and the people who held the notes brought them to the banks and demanded metal to cover the notes ; so they were forced to suspend payment.

In the second and third decades of the nineteenth century there were several crises of this absurd character, and two specially bad ones in 1814 and 1816, when no less than two hundred and forty banks closed their doors. More than one in three went bankrupt. In 1825 seventy more banks went down, and the panic caused by these disasters, reinforced by the Bank of England's fury at the formation of the new joint-stock banks, compelled Parliament to take action.

The act of 1826 was a piece of political patchwork. Granted the use of a metal currency, the trouble had only one source, namely, the fact that bankers were permitted to write pieces of paper which implied their possession of metal they did not in fact possess. But the country bankers were politically so strong, and the bank-notes so vital an addition to the old metal currency, that Parliament dared not, or at any rate did not, tackle the question. Instead, it compromised. The Act of 1826 removed the restriction on the number of partners in a country bank, permitted the establishment of joint-stock banks outside London, and forbade the issue of any notes purporting to represent less than five pounds of metal. It did no more than this.

The Act was a defeat for the Bank of England and the new joint-stock banks were not slow to celebrate their victory. Many new joint-stock banks were formed ; there was still no limit to the number of notes that any bank could issue ; every bank with the power to issue notes hastened to bring large notes into circulation ; and the inevitable

results ensued. There was a collapse in 1836 and another in 1837. In 1839 the Bank of England, which does not appear to have been careful about its stock of metal, had to implore help from the Bank of France. Even then Parliament was content to let things slide, and it was not till four and a half years later than something useful was done. Sir Robert Peel then persuaded Parliament to pass the Act of 1844, which, first, divided the Bank of England into two parts, an issue-department and a deposit-department, and, secondly, placed a definite limit on the amount of the note-issue.

The Act of 1844 was a victory for the Bank of England, and we may notice that it was passed by a Parliament elected after the passing of the Reform Bill. The Act concentrated the note-issue in the Bank of England, which was allowed, on the strength of the government's debt, to issue the equivalent of fourteen million pounds of metal it did not possess. No new bank was permitted to issue any notes at all; old banks could not issue more than the average number they had in circulation during the twelve weeks preceding April 27th, 1844. If an issuing bank were amalgamated with a joint-stock bank, or increased the number of its partners beyond six, it lost both its issue and its power of issue.

But, since this clause ran the risk of reducing to a dangerous level the amount of currency in circulation, the Act said that in such circumstances the Bank of England could increase its own issue by two thirds of the cancelled issue. The cancelled issues were equivalent to just over eight million pounds of metal; two thirds of this was about five and three quarter pounds of metal. Thus, after 1844, the amount of the note-issue not covered by metal was limited to nineteen and three quarter millions. Any issue in excess of that quantity could only be made against an equal amount of metal; that is, in excess of nineteen and three quarter millions the Bank of England was not allowed to issue any promise to pay metal unless it actually possessed the metal. Between 1928 and 1931 the limit was raised to two hundred and forty millions. The reason was that the Bank of England had assumed responsibility for the Treasury Notes issued after the suspension of the Bank Act in 1914.

It was in the debate on the 1844 Act that Peel used the words I have quoted. The chosen currency of England, he said, was not paper but metal. The thing that men called a pound was "a certain definite quantity of gold, with a mark upon it to determine its weight and fineness." If a man promised to pay a pound to another man, the promise meant that he would hand over, on demand, "that definite quantity of gold." If metal is used as currency, no man can pass any adverse criticism on what Peel said.

The Act of 1844 had two important consequences. Although the Act permitted the Bank to issue notes on the strength of a debt, it prevented bankers from growing rich by issuing, and being paid for the hire of, written promises they knew they could not keep. And so it was after 1844 that the word "banking," which for some time had been changing its meaning in the plain man's mind, came to denote more particularly the process of deposit-banking; that is, the business of receiving one man's metal for safe custody and hiring it out to another man at a price.

The second important result of the 1844 Act was the promotion of the bank-rate to a position of international significance. The bank-rate is the rate at which the Bank of England is prepared to discount bills. After the Act was passed there was no way of increasing the supply of currency except by increasing the stock of gold, and the proprietors of the Bank of England began to manipulate gold movements by changing the bank-rate. The method of the old goldsmiths, we must remember, had become part of the inherited tradition and was taken for granted as *the* way to do things. So every one who had any metal was eager to deposit it in the place where it would earn the highest fees. The greater the price a banker consented to pay for deposited metal, the more metal was deposited with him; the more gold the Bank of England possessed in its vaults, the more currency it could issue.

So the gold-game began and was played with enthusiasm and intelligence. "Seven per cent will bring gold from the moon," men used to cry. For nearly a hundred years, by raising or lowering the bank-rate, the proprietors of the Bank of England kept the supply of gold, so far as they could, where they wanted it; and on the shelves of our libraries you will find many learned treatises that were written about gold-movements. Indeed, the game of transferring gold according to the bank-rate still continues in some countries, though to a lesser degree than formerly.

In spite of its rational provisions in regard to the note-issue, the Act of 1844 did not have an easy passage; the arguments against it were strong. At that time the middle classes, who had succeeded to the domination of our society, were full of energy. The railway age had begun; the population was increasing fast and men needed a growing supply of currency to facilitate the exchange of the additional commodities they were producing. The critics of the Act saw plainly that the imposition of a limit on the issue of notes placed a limit on the supply of currency; whereas they naturally wanted the supply of currency to increase according to the state of the commodity-exchange

process. True, the supply of currency would increase if the stock of metal increased, but there was no reason to think that the supply of metal was equal to the demand. The Act, they thought, would be a burden to the trading community ; traders on the look-out for currency would not find any. The imposition of a limit on the number of notes a bank could issue was like placing an iron fetter round an expanding ball. Sooner or later the fetters would be broken ; there would be an explosion.

Peel made no attempt to answer the argument directly. With that doggedness which was so notable a part of the Victorian character, he was content to state that a pound was a pound of metal and that no amount of talk would alter it.

Subsequent events proved that the critics were right. The Act was such a failure that it had to be suspended in 1847, 1857 and 1866 ; loud debates about it took place. Indeed when Bagehot wrote his *Lombard Street* he thought it wise to begin by announcing that he would say as little as he could about the Act. "There has been," he said, "so much fierce controversy as to this Act, and there is still so much animosity, that a single sentence respecting it is far more interesting to many than a whole book on any other part of the subject. Two hosts of eager disputants ask of every writer the one question, 'Are you with us or against us?' and they care for little else."¹

Bagehot's book was published in 1873 ; he began to write it in 1870. How is it that at that time he could disregard a controversy that had raged for nearly 30 years ? Can it be that by 1870 Bagehot had come to see that the question was dead ? Moreover after 1866 the Act did not have to be suspended again till 1914. Why ?

The reason is that, quite unconsciously, our fathers began to use a new kind of currency, which existed alongside the old metal currency and so increased the amount of available currency. Moreover, the new currency was of such a kind that its amount could be increased at will. Officially metal was still the only form of currency recognized in England ; metal was also exclusively used in all international exchanges ; but internally the process of commodity-exchange was facilitated by the gradual introduction of cheque-currency. And I do not exaggerate when I say that the accidental introduction of cheque-currency was historically a more important event than either the substitution of metal for a currency like cattle or the introduction of any currency at all. The reason why the controversy over the Act of 1844 soon died is that all objections to the Act were removed when the majority of transactions began to be closed by cheque.

¹ W. Bagehot, *Lombard Street*, p. 2.

The curious thing about the cheque is that no one knows who invented it or when it was first used. The word comes from old French *eschec*, but from its original meaning "check" or "cheque" soon came to mean any stoppage or hindrance, and was then applied to anything that stopped, hindered, or restrained anything; hence to a ticket or counterfoil, especially the counterfoil attached to a draft of payment. The counterfoil checked any alteration being made in the draft, and, by common usage in this sense, the word "check" or "cheque" became almost synonymous with "draft," and finally superseded it in the speech of ordinary men.

When the system of deposit-banking was refined by the successors of the old goldsmiths it became the custom for a client who wished to withdraw or to transfer some of his metal to write an order to that effect. The cheque was an order from a client to transfer the metal he owned to the person named on the cheque. Alternatively, it was an order to the bank to hand over the man's metal. And it is to this custom that Withers refers when he says that "the right to draw a cheque carries with it the immediate and invariable right to demand gold."¹ But under such circumstances the cheque is not currency, and if there had been no further development cheques would never have become currency. As things were, developments were rapid and great.

In the early days the goldsmiths recorded in a book the amount of metal deposited by each client; and when cheques were first used a client might order some metal to be transferred to a man who kept his metal with another goldsmith. This meant that the metal had to be moved to the house of that goldsmith. The result was that each goldsmith or banker had to send a clerk to many other houses each day to collect the sums due to his clients. Between 1750 and 1770 these clerks arranged to meet at a definite place and exchange with one another the cheques drawn upon their respective houses. These meetings were plainly most helpful, and the point to notice is that the quantity of metal needed to cover the transactions was then much less than it would have been if the metal for each transaction had been actually transferred. For clients might write cheques for thousands of pounds; yet, owing to the contra-account, no metal change hands. These meetings subsequently developed into The London Clearing House. At first they were confined to the clerks of the private bankers; and so great was the influence of these men, so conservative their habits, and so keen their jealousy of the joint-stock banks, that it was not till 1884

¹ Hartley Withers, *The Meaning of Money*, p. 93.

that any joint-stock bank was permitted to be a member of the Clearing House.

Later no metal was moved at all. The joint-stock deposit-banks kept their stock of metal in a central place and opened accounts for one another in their books. Alternatively, each opened an account with the Bank of England. Their liability to their clients was recorded in the old way, but the metal, instead of being transferred in accordance with the order written on the cheque, remained where it was. Eventually each transaction resulted in nothing more, so far as the banker was concerned, than writing some figures in a book. Moreover, no one inquired whether or not the stock of metal was great enough to cover the total of these figures.

Meantime, our fathers grew more and more wealthy. The raw materials from conquered lands were imported and manufactured; a larger and yet larger number of commodities was produced; and, to close the increasing number of transactions, cheques were used more and more. They were also written for larger and larger amounts. When the cheque was first used the figures written on a cheque always represented a definite quantity of metal that existed somewhere; but in the second half of the nineteenth century this was no longer the case. The value of the cheques cleared in a single day was far greater than the total amount of metal currency in the country. It was then that the cheque itself became currency. So long as the figures actually represented some existing metal, the cheque was merely an order to transfer to another person that amount of metal currency; but, when the total amount of written cheques exceeded the amount of metal in stock, cheques themselves were currency. Their function was to act as the medium of exchange by transferring to other persons the amount of purchasing-power that the figures represented.

I have no doubt that some observers, when they perceived the extent to which cheques were facilitating the process of commodity-exchange, raised their eyebrows in surprise; but no crisis ensued, and it was not long before the total amount of commodity-exchange facilitated by cheques in a single day was gigantic. The total amount of gold in the world would not have equalled it.

The enormity of the change that occurred should not be underestimated. When cheques were first used they merely transferred to a new ownership a quantity of gold, but it is plain that the cheques cleared on April 30th, 1925 (as I pointed out earlier in the chapter), did not do so; for they totalled £263 $\frac{1}{4}$ millions and there was not so much gold in England. We still have some gold, but its quantity is small, and it would not cover the transactions that take place in a

single centre on a single day. Yet the process of commodity-exchange proceeds apace. Indeed, every one knows that if all the gold in England were dropped into the sea to-morrow the process would still continue. In other words, we no longer use a metal currency; we have adopted a cheque-currency. By its means about 90% of our transactions, and all the important ones, are closed.

* * * *

Metal used to be our medium of exchange; now the medium that transfers purchasing-power from one man to another is the cheque. The credit for having first invented the cheque, or at any rate for having first brought it into common use, must be given to our own immediate ancestors.

How beautifully the cheque works! In our society millions of transactions take place every day, the cheques are so convenient a form of currency that these exchanges, whatever their amount, are facilitated to a degree that would be astonishing if we were not so accustomed to it. There is none of that cumbersome delay that metal-using societies experience; no transport difficulties, no need for great vaults to store metal in; no fear of raids for treasure: none of these things. Moreover, safeguards are simple to arrange; forgery is rare, clipping and debasement impossible. The whole business is done by pens making marks on pieces of paper and in books.

When metal is used as currency there is always a danger of a change in the general price-level being produced by a change in the exchange-value of the metal. When cheques are used as currency this cannot happen. Exchange-value is a quality possessed by commodities only. A book of blank cheque-forms is a commodity, but a written cheque is not a commodity. Its only value lies in its performance of its function, that of being an order to transfer certain figures from one page in a ledger to another page, or from a page in one ledger to a page in another ledger. When the cheque has performed this simple but valuable task it can be destroyed.

But the most significant thing about a cheque-currency is its elasticity; a vital quality in a currency.

It is sometimes debated whether our deposit-bankers issue currency or not. Some maintain that they do. Thus Withers says of deposit-bankers, "By providing their customers with cheque-books they create the currency which settles the great majority of commercial and financial transactions and much of the retail traffic of daily life."¹ But many economists deny this. Our currency-issue, they say, is concentrated in the Bank of England.

¹ Hartley Withers, *The Meaning of Money*, p. 21.

It seems to me that both are right; but they speak of different things. Withers has also expressed himself carelessly. In discussing cheque-currency we must always be careful to distinguish between what may be called *potential currency* (blank cheque forms) and *circulating currency* (written cheques). Our deposit-bankers issue the former but not the latter.

In a cheque-using society the supply of potential currency (blank cheque forms) is for all practical purposes unlimited; and it is this lack of limitation that gives to cheque-currency its delightful elasticity. The number of cheques in circulation is only limited by the amount of purchasing-power that men wish to transfer to one another in return for commodities or services received.

* * * *

But cheques are not always the most convenient kind of currency when small irregular payments have to be made. Tobacco, tips, odd meals and drinks, postage stamps, telegrams, railway and theatre tickets, bus fares, etc., are examples of purchases that cannot be made by cheque as conveniently as by some other form of currency.

For this additional form of currency, tokens may be used.

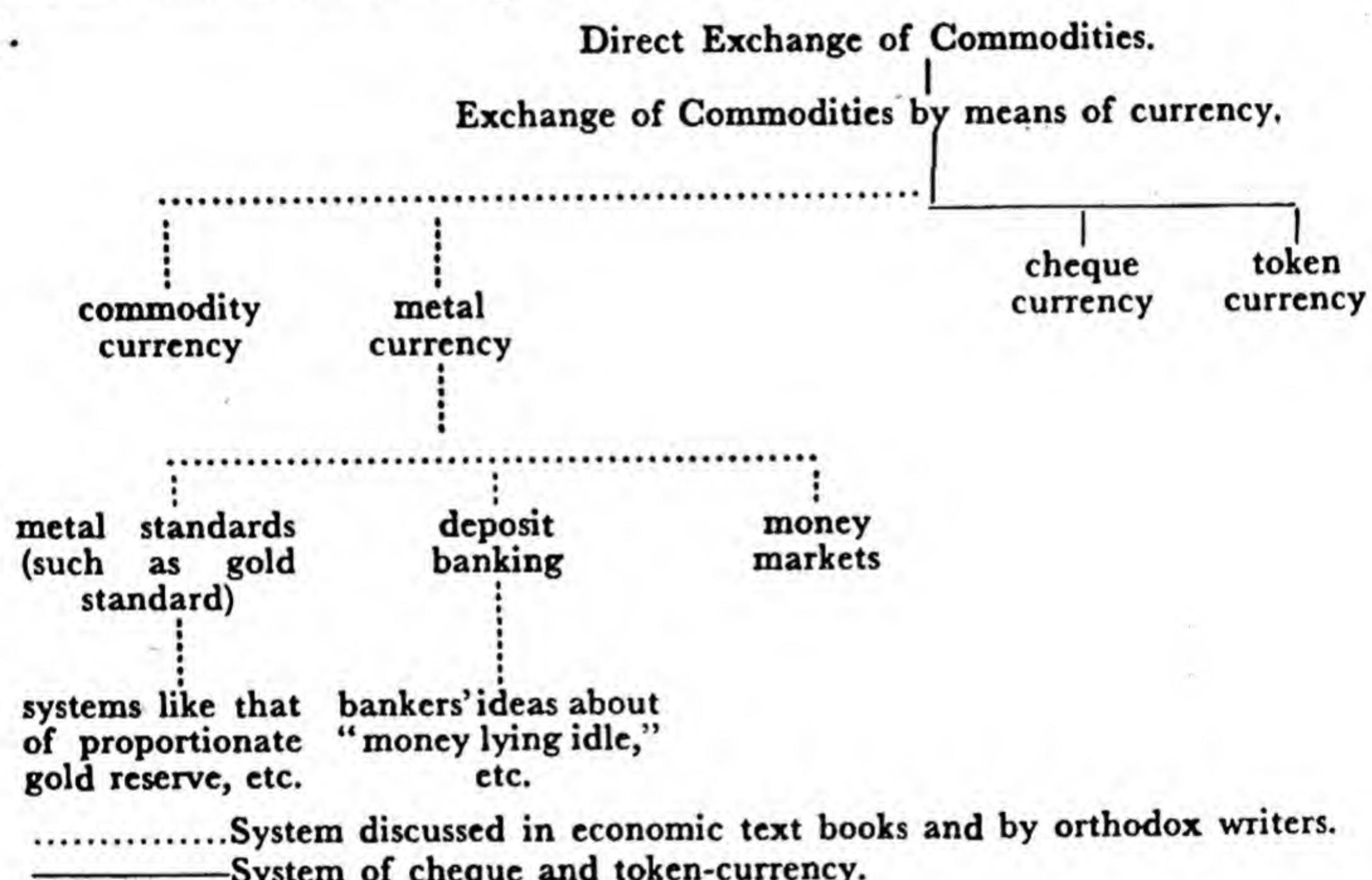
(Tokens are small articles which by the human will possess purchasing-power.) For the sake of human convenience, which is the sole reason for the existence of currency, they are usually of such a size and shape that they can easily be passed from hand to hand.) Their purchasing-power need not depend upon their commodity-value; it is given to them by law. They can therefore be made of any suitable material, paper, nickel, copper, almost anything. Their nature does not matter provided they serve the purpose for which they are required and stand the wear and tear of constant circulation.)

To condemn a form of currency because in itself it has no exchange-value reveals a misunderstanding of what currency is. So long as a piece of currency does the work for which it is brought into use, its own character does not matter a jot. The pound and ten shilling notes we use now, as well as our so-called silver coins, are tokens. Our ancestors, of course, would have been horrified at the thought of using them, but that is because they spent their early youth in a metal-using tradition.

The great advantage of tokens is that their purchasing-power does not change even if they are made of metal alloy and there is a change in the exchange-value of the metal of which they are made. Moreover, their character and contents can be changed at any time without affecting their purchasing-power. They are extremely convenient for small payments, and their issue a simple matter. If they are made of paper, all you want is a printing press and a good watermark; if of

metal, a closed Mint is implied. One safeguard is necessary : tokens may only be made legal tender for small amounts. If these conditions are fulfilled, a token-currency is in every way superior to a metal currency. The important point is that there would have to be made available such an amount of token-currency as the people would need to settle without inconvenience all the transactions they do not choose to close by cheque.

It may be helpful if I try to clarify, by means of a diagram, the direction in which our thoughts run when imbued with the idea of a metal currency, and how we should reason with our minds freed from the mental habits of the past.



It should be recognized that in an economic system devised in accordance with the use of a cheque-currency, money can only be a symbol produced by the stroke of a pen. Although we may be unfamiliar with such a thought, even an orthodox economist has spoken in similar terms of the emergency provision of money for the Government by the Bank of England.

"See what happens," he says, "when the Government has to pay dividends on War Loan and other Government stocks and finds itself in need of ten millions or so for the purpose. It borrows ten millions from the Bank of England, and the Bank of England gives a credit for this amount in its books, against which the Government draws its dividend warrants. But only a fraction of this amount is actually withdrawn. For the most part the warrants are paid into other banks to the credit of their customers who hold War Loan, and are paid in by

them to the Bank of England to the credit of their balances with it. So that instead of making a great provision of cash, the Bank has only to set its clerks to work with their pens rather faster than usual, and the whole thing is done.¹

In that passage it is not clear what Withers means by "cash." He may mean metal-currency or token-currency or neither; he does not say. His uncertainty is typical of the economic half-way house in which we now live, using a cheque-currency almost exclusively but speaking and behaving as if we used a metal-currency. But if Withers speaks vaguely when he talks about "cash" he does at any rate make it quite clear that he does not suffer from any illusions about the nature of the money that the Bank of England sometimes issues for the Government. When a cheque-currency is used, money is only a pen-stroke. What we have to discover is how, when, where and by whom the penstroke may be made.

¹ Hartley Withers, *The Meaning of Money*, p. 188f.

Chapter IV

THREE METHODS OF COMMODITY-EXCHANGE

IN seeking an answer to the question asked at the end of the last chapter, I propose to adopt the same method as before, and to begin by considering what happens when commodities are exchanged. May I emphasize again that a human society is not a collection of individuals but a network of groups of various and varying kinds.)

It will be helpful if we consider the case of a simple society, say one with five economic groups. The males and females that compose the economic groups are also members of social and political groups, but, beyond acknowledging the existence of these groups, we need not consider them now. Nor does the size of the groups matter; they are simply groups.

In this little society there is neither currency nor money; commodities are directly exchanged, each one for every other one, separately. The people live on corn, potatoes, goats' meat and goats' milk. For each commodity there is only one group of producers. Group A produces corn; group B grows potatoes and makes machinery; group C consists of weavers; group D goat-herds; group E house-builders.

To make the society complete, we should add another group, F. In every society there are always some definite persons to tend the sick, bury the dead, and instruct the young; the identity of these persons varies according to the society, but cultural services have to be performed by someone and we may say that the members of group F do these things. Group F is not important for our original purpose; it is merely mentioned so that the society may be a complete whole.

Our object is, by describing the different ways in which the members of the five economic groups can exchange their commodities, to discover the least likely to handicap the display of human energy.

We will suppose that our little society is autonomous and self-supporting; and we will further suppose that an increase in energy suddenly occurs in the society. We will assume that group E, the builders, want to produce more elaborate houses which the other members of the society want to possess; and that group B begin to invent more effective machinery for Group A, the corn-growers, and group C, the weavers. To simplify the tale, I propose to speak not of group B, but

of B, an individual man, a member of group B. This will not confuse us if we remember that the person I call A is a member of economic group A and that everything said of him also applies to every other member of that group.

B, then, is an energetic inventive person. He perceives that A is using a primitive kind of plough which merely scratches the soil, so that some of the corn, having no depth, withers away. A's harvest is thus considerably less than it might be, and B proceeds to cut down a tree on his land and to produce out of it a new and more efficient plough.

Having made the plough B brings it to A and asks him if he would like to have it. The proposal pleases A. The two men come to an agreement about the exchange-value of the plough in terms of corn; and I invite attention to the difference between, and the respective consequences of, the different ways in which the business can be done.

I take the plough first, but I shall assume too that B has also invented a new kind of loom, which C would like to possess. We will also consider the way in which A, B, or C might acquire one of the new houses E wishes to build. This will be important; for a house is wanted for its own sake, whereas a plough is only wanted because it helps to produce corn. Both are commodities, exchanged and exchangeable continually, but a house is produced for direct consumption and a plough as a means of further production. In any economic discussion it is vital to preserve a clear distinction between these two kinds of commodities.

The first method in which A can purchase the plough is by giving B the agreed amount of corn at once. But the trouble is that A has not enough corn in stock. Hitherto he has produced, in a good season, enough to satisfy what he regards as his ordinary needs, but he has not been able to produce more. In a bad season he has not been able to do even that; he has never had a surplus. So, if B will not let A have the plough unless A pays its full value at once, A is unable to be B's customer.

The effect on A's mind is interesting. Previously he has always made his own ploughs in the way his father taught him. As soon as B's new plough is brought to his notice he sees that his old one is a poor kind of thing, and he cannot help dreaming of what his life would be like if he could possess it. He would be able to produce more corn; his children would have more bread to eat. There would even be a surplus after that, and perhaps C, the weaver, would be willing to work a bit harder and to purchase some of the surplus corn with the additional cloth he would then make. This would almost certainly be

the case if C could have the new loom that has been offered to him on the same terms as those on which the new plough has been offered to A. The result would be that all three families would be better clothed and better fed; for B would have the use of the extra purchasing-power that the production of the plough and the loom gave him. A is quite ready to work even harder than he has previously done if by that means he can obtain the plough, which, incidentally, is of no use to any one else. C's position is the same. He would like to have the new loom and is ready to work harder that he may have it; but apparently some human circumstance is preventing both of them from having what they want and are willing to work for. Neither the loom nor the plough is wanted for its own sake but because it will increase production. The whole community would benefit materially and probably culturally too. Yet nothing can happen. The want is there; the thing to satisfy the want is there; yet the commodities cannot change hands. Previously both A and C, though mentally alert, were content, but now they grow bitter. More efficient methods of production exist; they are willing to pay the price of the machinery; but apparently they cannot have it.

That is the position of A and C. B's position is that none except A uses ploughs; so, if A does not buy the new plough, B's energy in producing it has been wasted. It is the same with the new loom. If C does not take it the energy displayed in producing it has been wasted. Moreover, having failed to find a purchaser for the first new thing he has made, B is certainly not going to make any more new things; so in future he must be idle when he would like to be making ploughs and looms which other men desire to have. Under such circumstances he too, I think, is likely to grow dissatisfied with the conditions of his life and to harbour such thoughts as come to us when, through no fault of our own, our creative efforts come to nothing. Being human, B may even feel like destroying the new machines.

Thus, the first method leads to mutual dissatisfaction and stagnation; both commodity-production and commodity-exchange are handicapped. A and C, willing men, are deprived of commodities they would like to have and for which they are willing to work harder. B, a resourceful, energetic man, sees that his energies are wasted and that in future he will have to gaze into the fire or stand at the cross-roads when he might be producing ploughs and looms.

Expressed in terms of groups, the method seems even more unsatisfactory; for it interferes with what would be the natural structure of the society. The farmers, group A, want ploughs; group B, the men who would like to produce the ploughs, are keen to supply the need;

but, if the members of group B will never deliver a plough till the members of group A give them its full value in corn, none can ever buy a plough, and the efforts of group B come to nothing. In other words, in the natural course of events a group of plough-producers would have emerged to play their part in the social, political and economic life of the society; but if these men cannot find a market for their ploughs the group can never come into existence. At any rate it disintegrates as soon as it has been formed.

It is the same with the manufacturers of looms. The weavers want new looms, but unless the producers of the looms are prepared to do business on some other basis than this, no weaver can purchase a loom; so no group of loom manufacturers arises as it would otherwise do and as it wants to do.

Expressed in terms of money, the transaction has a familiar character. The members of group A and group C want new machinery, but the members of group B, who make the machinery, will not deliver till the other men have paid the full cash value of the commodity. The members of groups A and C have not enough money in the bank-ledgers; so they cannot make the purchase, though they want the machinery very much and are ready to work harder in order to possess it. Moreover, the possession of it would make it easier to produce the surplus corn and cloth which alone will pay for it.

We may say that if an energetic society, which is not expanding into other territory, chooses to arrange its affairs on the basis I have described, it can never succeed in increasing the total amount of its internal production and exchange.

* * * *

The second method in which A can purchase the plough is a variation of the first and need not detain us long. Its economic results are much the same, but its psychological results are different, and these are the only things that we need to notice about it.

According to the second method, A agrees to purchase the plough and asks B to keep it in good order while he produces the necessary corn. A says that though he cannot afford to buy the plough at once he will save a little corn every season and will soon have enough. B consents and A makes his plans. He introduces strict economy into his house and tells his wife and children that they must save every possible grain of corn. They must even go short of bread, that the new plough may sooner be possessed. It would, of course, be much easier for A to produce the necessary surplus if meanwhile he could have the use of the plough; and to his wife's way of thinking (the female of the species is essentially practical in her outlook) he might

well have it. After all, it is there in B's garden doing nothing. But the immediate delivery of the plough does not come within the terms of the contract. The children have to go less well fed and clothed than they might be, and A, from being a carefree if unintelligent man, is rapidly becoming a stern, unsmiling one.

The same situation arises in C's home. He also enforces strict economy; his family too are not so well fed and clothed as they might be. The new loom is there and might be producing more cloth than C can produce with his old one; but the only way in which, according to this second method of commodity-exchange, C can obtain possession of it is by compelling his wife and children to sacrifice part of their welfare. As C does his daily work his face is grim; the repression of his desire makes him dour; and his wife feels like A's wife feels, namely, that the strain of living with another creature is great. The world is incomprehensible; they were happier before the new machines were made.

Summarily, this is what happens in the homes of A and C when the second method is adopted. What about B? It seems that while A is producing the extra corn and C weaving the extra cloth, he must be compulsorily idle. Being an energetic man he thinks he sees how to make still finer machines, and he is eager to try, but what is the use of making them before the first lot have been sold? This second method produces the same economic results as the first. A and C still have to work with inferior instruments; B is unable to make full use of his energy. In each case commodity-production and commodity-exchange are severely handicapped.

Expressed in terms of money, the method assumes a familiar character. The men have to save enough money till they can purchase what they want. As the basis of the economic system and as the method by which producers obtain the means whereby they produce their commodities, it is plain that a more satisfactory system than this second method should be found.

* * * *

The third method in which A and C can purchase the plough and the loom respectively is more complicated. To appreciate its economic and psychological results we must study its effects over at least three generations.

Let us suppose that D, the goat-herd, has just had a few good seasons. Normally he uses his goats as commodities and exchanges them directly for corn, potatoes, and woven cloth. Now, having more goats than usual, he is able, if he wishes, to reduce the exchange-value of his goats. If he were to do so he would be sharing his good fortune

with his fellow-citizens by giving them more milk and flesh in exchange for what they give him. But D does not do this. Instead, he conceives a plan which, it seems to him, will be helpful to A, B and C, and profitable to himself. Hearing of the difficulties A and C are experiencing, he offers to let each of them have 100 goats with which to purchase the new machines. In exchange for these goats, he says, he does not want to receive an immediate supply of commodities; all he asks is that A and C should recompense him for the risk he runs and reimburse him for the loss he sustains. When a man keeps goats, he says, he receives from them a regular supply of milk and kids; these kids grow up and yield more milk and kids, which in their turn produce more milk and kids, and so on. He will be pleased to help A and C by letting them have 100 goats each so that they can purchase the machines, but, until they can return the loan in full, each must send him a small annual supply of what they themselves produce to take the place of what he would undoubtedly have if he kept the goats himself. He estimates this annual value at 20 goats for each 100 goats lent.

The fallacy in D's argument is obvious, but we should not place too much emphasis on it. The life of a goat, like that of a man, is precarious, and it is certainly rash to think that the 200 goats will produce their progeny with the mathematical precision that D supposes. On the other hand there is no reason to think that the goats will fail to breed, and there is some logical justification for D's claim. The bargain also takes it for granted that a large proportion of the progeny will be female, and this is by no means certain. Again, on the other hand there is no reason to think that fewer females will be born of these 200 goats than of other goats, and D's estimate cannot be disproved. At all events A and C are favourably impressed by the proposal, which, though new to them, opens up many attractive possibilities. They see no other way to obtain the machines, and they are grateful to D for his consideration. B expresses his readiness to accept 100 goats for the plough and 100 for the loom, and the business is done. Let us examine each man's position.

When A gets to work with the new plough the amount of his harvest increases. He easily produces each year the additional amount of corn required to pay D. We may suppose that he also has a surplus after that; he can therefore give his family more bread to eat. Spare corn may even be available for additional purchases of woven cloth. D does not press him to repay the 100 goats; D is quite content with the existing arrangement. He receives each year from A a regular supply of corn equal in value to 20 goats; this corn satisfies most of his corn-wants. For the corn he gives nothing in exchange, and the goats he

used to give in exchange for corn are now available for other purchases. But we may conjecture that D does not use them for this purpose, and that the goats that are no longer spent on corn go to swell the size of the herds.

C is in the same position as A. The new loom enables him to produce more woven cloth than he did with his old one; so he also easily manages to pay each year to D the cloth that represents the risk and the loss incurred by D when he lent C the 100 goats with which to purchase the loom. There is even a surplus after that, and with this surplus C can purchase from A some of the extra corn A now produces. The result is that the families of both A and C are better fed and clothed than they were before the plough and the loom were produced and exchanged. And this is naturally so; for the total amount of commodity-production and commodity-exchange has increased.

D does not press C, any more than he presses A, to return the original loan. He is only too happy to receive each year a supply of woven cloth for which he gives nothing in exchange. He is now able to clothe as well as feed his family at no cost to himself, and his wealth, represented by the size of his herds, increases.

B also is pleased with the situation in which he finds himself. He has the satisfaction that comes to all craftsmen who see their productions put to good use; he also possesses the extra wealth his productions give him. Moreover, he has been much impressed by the manner of D's bargain, and he takes advantage of the experience. When he receives the goats from A and C he goes to D and offers to give the goats back on the same terms as those which D made with A and C. In other words, he offers to deposit the goats with D on condition that D sends him each year a supply of milk and flesh.

D is too good a business man either to accept or to refuse this offer. When he lent the goats to A and C he was doing them a favour; and he did not minimize either the risk he ran or the loss he sustained. When B offers to let him have the goats back again the position is different. If D had asked B to lend him the goats, B would have been justified in demanding the same reward as D demanded from A and C; but D is not asking for a loan. On the contrary, he is being asked for a favour again. He therefore points out that when he helped A and C he did so out of good fellowship. It was possible that both A and C might fail to recompense him for the losses he incurred by letting them have the goats, and he himself ran a great risk. He would rejoice if he could also be of service to B, but he cannot possibly undertake to give B each year so much as A and C were asked to give. In handing the goats over to D, B is running no risk at all. D says he is

willing to help B by taking the goats back; he will even consent to give B a small amount of milk and flesh each year; but he cannot give him much. Goats are troublesome things to keep; you never know what they will do or how they will breed. All D can do is to offer B, in return for the deposit of the goats, an annual amount of milk and flesh equal in value to, say, 10 goats.

B sees the force of D's argument, and, not wanting to look after the goats himself, hands them back to their original owner.

B thus begins to receive from D each year a small supply of milk and flesh for which he gives nothing in exchange. The result is that he need not produce so many potatoes now. Hitherto he has had to produce enough potatoes to purchase all his requirements, but he now gets some of them for nothing, so he at once begins to spend less time on the production of potatoes and more time on the production of machinery which he enjoys much more. Being a kindly person he tells A's younger son about this, and suggests that the lad should take over some of the potato-growing. With B's machine A is able to produce more corn with less labour; so the help of his sons is not now a matter of so great urgency as once it was; and the younger lad, restless in his comparative idleness, is greatly pleased to accept B's kind offer. He therefore begins to grow potatoes on a part of B's land.

In return for the use of the land the lad gives B a part of his produce. B thus secures another small supply of commodities for which he gives no commodities in exchange.

This third method seems to have many advantages. The plough and the loom change hands; commodity-production and commodity-exchange proceed apace; neither seems handicapped, and we shall do well to follow the little society as it proceeds along its new path.

To begin with, at any rate, the path is a rosy one. A and C are producing more with less labour. B has sold the first machines he built and is hard at work on the production of new ones. He receives each year from D a supply of milk and flesh equal in value to 10 goats; he also receives a supply of potatoes from A's younger son. He himself still produces some potatoes, but he does not produce so many as he did before, for he need not give so many in exchange for his milk and flesh. D is most happy. All his goats are still under his own control, and he still enjoys the whole of their produce. True, he has to send B each year a supply of milk and flesh equal in value to 10 goats; but he receives from A and C a supply of corn and woven cloth to the value of 40 goats. The net result is that he is 30 goats a year better off. A and C, the source of this pleasant profit, are also better off.

I draw attention to the fact that the goats need never have been

moved at all. Actually A and C each went to D, took 100 goats, and drove them to B who drove them back again to D. However, this third method of commodity-exchange has greatly assisted the society. The display of human energy is no longer handicapped; every one is pleased, and so pragmatic a test is not to be despised. At the same time there is a small cloud in the sunny sky, and we must plainly inquire further before we conclude that this method is a satisfactory one.

The cloud in the sky is the fact that B and D now receive a supply of commodities in exchange for which they do not give other commodities. In other words, they possess an amount of purchasing-power which does not reflect exchange-value. True, both are still producing something, and the society as a whole is much better off. But the nature of things is being slightly contradicted, and we must take care. We must remember that a satisfactory system should be suitable for a society that wishes to display the greatest possible amount of energy. If we allow some men to have an income in return for which they produce nothing, other men will have to go short. Not receiving their due reward, these might cease to display their greatest energy, which would mean that the economic system was defeating the purpose for which it was designed.

Till now, however, except for this purchasing-power possessed by B and D, all seems fairly well, and we may well continue our investigations.

I think it can be assumed that these men, as they get accustomed to their new life, will soon begin to want their houses rebuilt. Let us suppose, then, that D orders E to build him a new house, the price to be 100 goats. Now D, as we have seen, has been much impressed by the happy nature of his bargain with B; so when he has given E the 100 goats for the new house, he offers to take them back again and, in return, to send E each year a supply of milk and flesh to the value of 10 goats. D thinks that A, B and C will be wanting houses soon, and that these goats may be useful then. The rate of the return he offers E is the same as that accepted by B.

E is by no means shocked that D should offer to send him only the equivalent of 5 goats a year. On the contrary, he is much impressed by what seems to be D's generosity. Till recently E had regarded goats merely as commodities to be passed from one person to another in the ordinary way of commodity-exchange. True, they always found their way back to D in the end, but that was simply because he was the only goat-herd in the place. No owner of them had ever thought of asking for a share in the goats' undoubted progeny. This idea only came into

existence when A and C purchased their new machinery. E knows that A and C now send to D an annual supply of commodities to the value of 20 goats each; but then D ran a great risk when he lent the goats. He says too that he sustained a great loss because he lost the progeny. Things do not appear to have worked out like that, for D still has the goats and possesses the whole of the progeny. E, however, realizes that he cannot expect to receive so much on the goats D now asks him to deposit with him. In depositing the goats E runs no risk and incurs no loss; after all, the goats are only commodities, and on previous occasions there has been no question of any payment for the use of goats. On the whole D's offer seems quite reasonable and E accepts it.

So E now joins the ranks of those who are receiving a supply of commodities in return for no other commodities. On the other hand, he has produced a house for which he now possesses no commodity-equivalent. D's position has changed too. Till he ordered the new house he had, so to speak, an unearned income of 30 goats a year, but he now has to pay E 5 goats a year, so his unearned income is only 25 goats a year. On the other hand he has a new house.

Something else has changed too. Somehow or other a house has ceased to be a commodity for which other commodities are given in direct exchange; it has become a thing for which an annual payment is made. Still, D is pleased and E is pleased and no one seems to suffer. Though we must hesitate before we condemn a system that works so well, we seem to be getting farther and farther away from the fundamental truth that in the nature of things purchasing-power only exists in so far as it is a reflection of exchange-value. Perhaps we had better postpone any further comment till we have followed the society a little longer down its rosy path.

Let us suppose, then, that some years pass. Meantime, B has almost completed the manufacture of a still finer plough and a still finer loom. A and C and their eldest sons think much about these new machines. The older men are aware that the ones they originally purchased are getting worn out; but, since they have not yet returned the goats they originally borrowed to pay for them, they feel disinclined to consider the purchase of the new ones. True, D is not pressing them for the return of the loans; he is content if he receives the annual supply of corn and cloth they have to send him. He might even be ready to consider the making of another loan. But the old men do not relish the idea of getting further into debt, and they put the idea of the new machines out of their minds. In fact, they often feel they would like to economize at home so that they could pay back the original loans.

But their families have no sympathy with the idea ; they are now accustomed to a higher standard of living and do not see why they should be asked to make what seems an unnecessary sacrifice. They would even like to have such a fine new house as D has ; to them their father seems a tired old man who has lost his nerve. See how well the economic system is working ! If loans were returned the foundation on which the system is built would be undermined. Are not they all much happier than they were before the plough and the loom were purchased ? The only suggestion that the young ones have to make is that the wheel of commodity-production and commodity-exchange should be made to revolve still faster by their ordering both a new house and the new machines.

A's younger son is specially emphatic in the expression of his opinions. He has left his father's fields to work in B's fields, and is on the way to becoming an independent citizen. He feels that the idea of returning the original loan is a danger to his new position. He is now, he thinks, an indispensable cog in the economic machinery, responsible for part of the potato supply. How can his father have these old-fashioned qualms ?

But A is not convinced ; all he sees is that the plough is wearing out and that he has a debt he cannot repay. This debt represents the exchange-value of the plough ; so his position is that he has a debt that represents the value of a commodity that will soon cease to exist. To him there is something wrong in paying year after year for a thing that is no longer in existence.

A's uncertainty makes B restless ; for there seems to be some danger of his not being able to find a customer for his new plough. Still, no one sees what can be done ; so the economic life of the society goes on in the same way.

C is in the same position as A. He too would like to get out of D's debt, but his family also have got accustomed to a higher standard of living and resolutely oppose the idea of economizing in order to pay back the 100 goats. So C also puts the whole matter out of his mind. He feels unable to countenance either the purchase of the new loom or the ordering of the new house. It looks as if this third method of commodity-exchange is going to break down.

Its psychological results are also unexpected. For instance, C is worried to notice that his younger son, envious of the seemingly independent position occupied by A's younger son, is becoming unsettled.

All the old men now die, a little disillusioned, perhaps, after their former elation. Their assets and liabilities are inherited by their sons, A₂, B₂, C₂, D₂ and E₂. A₂ and C₂ understand the position in which

they are placed. They fully appreciate the fact that the first machines have not been paid for by them; but they badly want the new machines that B₂ has now completed. They also perceive that unless B₂ can sell his machines the whole economic system will collapse. They are confident that with the new machines they will be able to increase their output; so they decide to purchase the machines and to risk the results. They ask D₂ if he will help them in the same way as his father helped their fathers.

A new generation having been born, this method of commodity-exchange is now recognized as *the* way to do things; it has become part of the inherited tradition. It never occurs either to A₂ or to C₂ that any other method could be adopted. The only question they have to decide is whether they will make the purchase or not.

D₂ is delighted to be of assistance, and the wheel revolves once more. A₂ and C₂ borrow 100 goats each from D₂; in return for the risk D₂ runs and for what he loses by making the loan, both A₂ and C₂ undertake to send him an annual supply of commodities to the value of 20 goats (this in addition to the supply they already send in accordance with the bargains struck by their respective fathers). They then hand the goats to B₂ in exchange for the plough and the loom; B₂ immediately takes them back to D₂, who undertakes to receive them on deposit and to give B₂ a small part of their produce each year, say the equivalent of 10 goats in all. (This is additional to the 10 goats B₂ already receives from D₂ in accordance with the arrangement inherited from their respective fathers.)

We will examine each man's position again.

B₂ is now able to realize his ambition and to give up potato-growing altogether. He thus becomes an independent craftsman. He hands all his fields over to A₂'s younger brother, who already uses a part of them. In return for the use of the fields this man gives B₂ a part of his produce.

D₂ now grows wealthy. He still has all his goats, and he enjoys the whole of their produce, less what he sends to B₂ and E₂. In addition he receives an annual supply of corn and woven cloth from A₂ and C₂. This is double what their fathers paid; so D₂ not only enjoys the use of his father's new house but also has a greatly increased unearned income. He inherited from his father an unearned income of 25 goats; besides this he now receives an unearned income of 40 goats a year from A₂ and C₂. He has contracted to send B₂ each year an amount of milk and flesh equal in value to 10 goats; so his net gain is 30 goats a year, which, added to his inherited income, makes 55 goats a year.

Under these circumstances, he finds himself able to gratify the ambition of C₂'s younger brother, whom he now hires to look after his herds. A new element in the economic system at once emerges. This man does the same work as D used to do, but instead of receiving the full exchange-value of what the goats produce, he merely receives an *ad hoc* amount fixed by D₂. D₂ now begins to receive a regular supply of commodities in virtue of nothing but his ownership of debts and stock. The economic structure is beginning to change.

E₂ now gets active and offers to build a new house for B₂. B₂ replies that he cannot afford a new house. He is merely an impecunious craftsman; his only certain income is what he receives from D₂ and the man who hires his fields. He has not enough surplus to purchase a house; it is as much as he can do to make ends meet. E₂ replies that he is ready to receive one hundred goats in exchange for the new house, and since B₂ has 400 goats on deposit with D₂, the latter can well afford to pay for the house. B₂ is most reluctant to liquidate his assets in this manner, but he has had no difficulty in selling his last machines, and there is no reason to suppose that he will have any difficulty in selling the ones he is making now; particularly is this so because the man who hires his fields is thinking of buying a machine so that he can better dig his potato-fields.

Eventually B₂ agrees. There is no point in moving the goats; so B₂, D₂ and E₂ meet at D₂'s house and the goats change hands. B₂ gets a new house and loses a supply of milk and flesh to the annual value of 5 goats; E₂ receives this annual income in return for the house. D₂'s position is the same as it was; the good opinion that his fellow-citizens have of him is confirmed by the fact that he makes no charge for the services he renders.

Strict economy now becomes the rule in B₂'s home. This means that he can purchase less from A₂ and C₂. But they do not suffer, for the purchasing-power recently possessed by B₂ has been transferred to E₂.

We may next suppose that the children of A₂ and C₂ refuse to give their respective fathers any rest till they also have new houses. But neither A₂ nor C₂ has any goats on deposit with D₂; so they cannot obtain their houses in the same way as B₂ obtained his house. The only possible way for them is to borrow from D₂. This is what D₂ has been waiting for. Hiding his glee, he consents to be generous and agrees to advance the goats wherewith A₂ and C₂ can purchase the houses from E₂. But, he says, A₂ and C₂ must make good the losses he incurs and give him some reward for the risk he runs. He estimates these things at the same figure as his father did when he was alive, and

A₂ and C₂ readily agree, for this figure is now recognized by every one as being fair and just.

So A₂ and C₂ borrow from D₂ 100 goats each, which they transfer to E₂, who sends them back to D₂ on deposit. After this transaction has been completed E₂ receives each year from D₂ a further supply of milk and flesh to the value of 10 goats a year; this gives him a total supply to the value of 20 goats a year. D₂ still sends each year to B₂ a supply of milk and flesh to the value of 15 goats; he now sends each year to E₂ a similar supply to the value of 20 goats; but all the goats are still under his control and he enjoys the unrestricted use of their produce. The advantage he gains by lending to A₂ and C₂ the goats with which they purchase their houses is that it greatly increases what I have described as his unearned income of 55 goats. This was after deducting the value of the produce he sent to B₂ and E₂. Now A₂ and C₂ have to send him each year additional commodities to the value of 20 goats each. The only extra liability he has incurred is that of sending to E₂ a supply of produce to the value of 10 goats. So his unearned income is now 85 goats a year.

C₂'s younger brother is looking after D₂'s goats; so D₂ himself produces nothing. Yet he enjoys a handsome income, which comes to him by virtue of his ownership of debts and stock. And do not let us be in too great a hurry to criticize him. According to this method of commodity-exchange he is the one man in the community who is indispensable; the other members of the society could not now get on without him. The fact that his value lies in his ownership of debts and stock does not make him superfluous; it is due to the economic system that the society has adopted.

But it is plain that the production and exchange of the houses has greatly changed the economic structure of the society, and we now see that this third system is unlikely to prove satisfactory for an energetic society. I will consider each commodity in turn.

D₂ now receives more corn than his family can conveniently consume. There is a limit to the capacity of the human stomach, and much of D₂'s corn remains unconsumed. At first he gives some of it to C₂'s younger brother, who manages the goats. This manager's income now rises, and his standard of living goes up; but he is wise enough to recognize that his extra income is really a spontaneous act of generosity on the part of his employer. There is still, however, a surplus of corn in D₂'s home even after his family and the manager's family have had their fill. This surplus is either thrown away, wasted or burnt.

Meanwhile, the amount of corn consumed by the families of A₂ and C₂ is necessarily much less. A₂ has discovered that the result of pur-

chasing a new house is not the same as the result of purchasing a new and more efficient plough. The latter increased the amount of his corn-production, but a house is unproductive. When he borrowed goats to buy the plough he was able to pay D₂ out of the surplus that the plough enabled him to produce; no such surplus is produced by the purchase of the house. On account of the house he has to send each year to D₂ just as much corn as he has to send on account of the plough; but the amount of his production remains the same. The result is that after A₂ has purchased the house he is worse off than he has ever been before. His family have to go short of food and clothes because he has less corn for his own consumption and none to spare for the purchase of woven cloth.

The fact that A₂ cannot purchase so much woven cloth means that C₂ cannot purchase so much corn. Even if A₂ had the corn to spare C₂ would not be able to purchase it. Just as A₂ has to send much more corn to D₂, so C₂ has to send more woven cloth. The result is that the families of both A₂ and C₂ are worse clothed as well as worse fed than they were before. D₂'s family, on the other hand, is embarrassed by the quantity of woven cloth it has. Even after D₂ has given his manager an extra supply of cloth and so raised his salary again, there is a surplus.

Like A₂ and C₂, B₂ is now poorer than before, and he begins to feel the strain. He considers seriously if it would not be a good plan to resume possession of his land. The only man whose life proceeds on an even keel is E₂; and he too is beginning to be concerned about the future. His only policy, he perceives, is to keep on the right side of D₂, who, if approached in the right way, might consent to build a new hall, or a new bridge over the river.

The almost universal worry that now oppresses the producers of commodities is shared by A₂'s younger brother who is much perturbed by B₂'s plan to resume potato-growing. He decides to ask D₂'s advice. No land has ever been sold in this society, but the potato-grower has a plan. As B₂'s tenant, he tells D₂, he pays the equivalent of 3 goats a year; on a deposit of 100 goats D₂ allows 5 goats a year. Will D₂ offer B₂ 100 goats for his rights over the land? If so, he, the tenant, will contract to pay D₂ the equivalent of 5 goats in return for a secure tenure. B₂, he urges, is sure to accept the offer, and the transaction will not cost D₂ anything. He will be doing the tenant a great favour if he will consent.

But the time has come when generosity to his fellow-citizens is only on the lips and never in the heart of D₂. He says that he does not see his way to do as he is asked, for he will make no profit. The tenant

offers the equivalent of 6 and even 7 goats a year in return for a secure tenure ; but D₂ refuses to give the required accommodation. He has conceived a better plan, "better" in that context meaning more profitable. He goes direct to B₂, offers 120 goats for the land, which B₂ accepts, and then tells the tenant that he must either pay 20 goats a year for the use of the land or become D₂'s paid servant. In the latter case the whole of the produce will belong to D₂, who will pay the erstwhile tenant an *ad hoc* amount for his labour.

In this manner D₂ secures control of the potato-growing industry ; and it is easy to see that this method of commodity-exchange can lead to no other result. In this little society all the producers are soon reduced to the status of being D₂'s paid servants.

When A₂, B₂, C₂, D₂ and E₂ die, the tradition inherited by their sons, A₃, B₃, C₃, D₃ and E₃ is much different from that in which their grandfathers A, B, C, D and E spent their early youth. Perhaps we can best understand some of the differences if we speak now in terms of groups, of which the individuals are representative.

Group A are workers on the farms, group B are now the craftsmen and engineers, group C the weavers : all are now the paid servants of group D, the group that controls the thing that measures the exchange-value of commodities. Group D may be imagined to be as numerous as we please ; it may contain persons who are members of no other group or its members may be members of any other group as well as group D. The membership of the group makes no difference to the economic situation that emerges, which is this : it is only by consent of this group that communal halls may be erected or bridges built ; it owns all the means of production, all the houses, all the land—everything ; the whole society is under its domination.

The economic structure of the society has become such that producers are divided into two distinct groups, employers and employed. The former wield their power by virtue of nothing but their ownership of debts and stock ; they control output, decide the rates of pay, have the power of veto over any economic enterprise, and there is no appeal from their decisions. The latter do not receive the full exchange-value of the commodities they produce but an *ad hoc* amount fixed by their employers. The commodities themselves become most unevenly distributed. Groups A, B and C have too little, Group D too much. Of certain things the power of consumption of group D is limited ; the other groups are short of these same commodities, but their needs cannot be satisfied ; and after group D have seen that their managers are well fed and well clothed, any surplus is wasted or destroyed. Group E survive for so long as they do as group D wish.

These conditions inevitably arise if this method of commodity-

exchange is adopted; each factor is the direct result of the method in which commodities are exchanged.

To revert to the details of the story: when D died his unearned income was inherited by D₂, who began to regard the possession of such an income as quite a normal thing. This income did not represent exchange-value and its enjoyment was a pleasant experience; so D₂ taught his sons that in this life a man's aim should be the possession of such an income. A man's success, he would say, was to be judged by the extent to which he persuaded other men to supply him with purchasing-power in return for doing nothing.

This idea naturally emerges from the condition that this method of commodity-exchange creates, and it soon becomes an accepted doctrine throughout the society that in this life a man's aim is not to use his natural powers but to get himself into such a position that he can live on other men's labours. We must therefore condemn this third method more firmly than we condemned the first two methods.

We have still to find a method of commodity-exchange that will suit an energetic people without handicapping or embarrassing the display of their energy.

* * * *

The third method of commodity-exchange is the one we ourselves use. So far as my knowledge goes, every previous civilized society had used it too.

Idealists unanimously declare that many of the economic symptoms they deplore are due to "world-conditions." They say that at present much economic injustice has to be tolerated because it is part of a "world depression," which can only be lifted by the united efforts of many nations. I agree that many of our economic symptoms (idealists call them "problems") are world-symptoms (world "problems") in so far as they are common to all white societies, and white men now dominate the world. And I do not doubt that every white society is economically influenced by the conditions that prevail in other societies; but I feel unable to accept the conclusion that any given society cannot achieve a state of economic "justice" unless all other societies do the same at the same time.

I now wish to point out that if the society had been able to expand into other territory, the inevitable results of the system would not have been noticeable so long as the period of expansion lasted. They only became apparent so soon because the society was limited to the land it already occupied.

In my description of the method I not only disregarded the effects of expansion but also reduced to a minimum the time taken by the society to arrive in its final state. I did so for brevity's sake, and in

order that the salient features of the system might be made clear. Actually, I think, it is hardly possible for the results to emerge so soon as I implied.

Most of the story as I told it is historically true so far as our own society is concerned. In the profit I gave to D for the risk he ran and the loss he sustained, a student of our economic history will have recognized the *damnum emergens* and the *Lucrum cessans* of the medieval canonists. The profit was *interest* in its original sense. Interest comes from *interesse*, "to be between"; it originally denoted the profit that came to a man who made a loan. The profit was that which lay between the original sum lent and the sum he received back. I shortened the historical development by making A and C give D a definite sum each year. This is what *interest* became within a generation or so of its becoming common.

Another event in medieval history found a place in the story as I told it. When D₂ purchased B₂'s land his behaviour was the same as that of the medieval merchants who bought rent-charges. Theoretically the character of the transaction is important, and we may ask ourselves what D₂ received from B₂. Not a simple question to answer. He received, of course, what we receive when we buy land now. Theoretically in England all land still belongs to the King. What, then, do we buy when we buy land?

The manner in which cash-rent appeared in the economic system of the society was not historically true in all its details. When A₂'s younger brother became a tenant of B₂ the economic relation between the two men was such as existed in England when the villeins computed for a cash payment the services due to their lord; but the historical process by which the cash payments came into being was different.

Historically it is important to note that cash-rent came into existence as the result of computation; but the only point I wanted to notice was that one man became the tenant of another man. I do not say that his tenancy was the result of the commodity-exchange system. The manner in which I told the story was really forced upon me by my wish to distinguish between rent paid for land and rent paid for a house. These different kinds of rent are usually confused by economists, but they are actually different both in origin and nature.

In speaking of the rent paid by A₂ and C₂ for their houses, I chose to disregard the land on which the houses stood; my description of the manner in which they came to pay rent is historically true. If we exclude the fees we pay for the occupation of land, the rent we pay for a house built now is the same as the payments made by A₂ and C₂ for their new houses.

My object in describing the system was to show that if commodities are exchanged in that way four results must emerge. Moreover, the structure of the society must alter; a certain standard of judgment and conduct must be introduced into it. This standard could not appear if commodities were exchanged in a different manner; nor could the structure ever assume that particular shape.

The four results are :

(1) Producers of commodities, who begin by owning the means of production, lose their possession of them.

(2) Producers of commodities split into two groups, employers and employed, whose material interests conflict. In the early stages of the development these groups are separated by the presence of persons, whom I roughly call "managers," who never unite into a specific group.

(3) There emerges a group of persons who enjoy the possession of purchasing-power in virtue of nothing but their ownership of debts and stock. This group dominates the economic life of the society.

(4) It becomes part of the inherited tradition that a man should aim at becoming "independent." In that context "independent" does not mean a state of freedom from external control but a condition in which a man lives on the products of other men's labours without necessarily doing anything in return.

Some reformers have a habit of ascribing to, say, our deposit-banking system, the responsibility for certain economic symptoms that cannot be shown to have anything to do with any banking-system. The four results I have summarized are a direct result of the commodity-exchange system. You can have any kind of banking-system that you choose; if you exchange your commodities in that manner the results will emerge. For this reason, in describing the system, I made no reference to banking.

D should not be confused with a deposit-banker. D was not a deposit-banker; he merely performed one of the functions that our deposit-bankers happen to perform. He controlled the thing that was used to state and measure the exchange-value of commodities (money). I was most careful to avoid any reference to the medium of exchange (currency), with which also our deposit-bankers are much concerned. In the society I described commodities were directly exchanged. Yet the persons controlling the direction where money went succeeded to the domination of the society. This domination was in virtue of nothing but their power to control the direction of money, and my submission is that, until we understand how that happened, we do not begin to understand our own economic system.

Chapter V

FALLACIES INHERENT IN OUR ECONOMIC SYSTEM

THE manner in which the third method of exchange handicaps the display of energy is easily understood. When a society's economic system is based on that method, consumers, to get possession of the things they want, must produce money. If they themselves do not possess it they must borrow it, which means they must hire it, and in such a society all producers *must* eventually become the paid servants of persons that hire out money.

In considering wherein the fallacy of the third method lies, it is not enough to say that, since money is only a useful device invented by men for their own convenience, they are plainly foolish if they put themselves into such a position that the conduct of their lives is embarrassed by it. This, though true, is not helpful. What we would like to discover is how the third method of exchange creates such institutions as give money its power, and finally enable its possessors to exert an almost complete control over the lives of their fellows.

Perhaps the matter becomes clearer if we remind ourselves that any human institution is only the embodiment of an idea, conscious or unconscious. We may say, then, that the fallacy of the third method of exchange consists in some idea which, in operation, produces among other results the one I have described.

This idea is soon traced. Money is a device by means of which men state, measure and compare the exchange-value of their commodities. It also states and measures the amount of purchasing-power that the producer of any commodity is entitled to possess; but the performance of this and of any other function that money performs, is derived from the performance of the main function.

Commodity-exchange consists in the giving of X commodity A in exchange for Y commodity B, X and Y being quantities of equal exchange-value. When a form of currency is used, the character of the transaction still remains the same; it merely takes place in two steps instead of one. In return for a commodity he has produced, a man does not receive another commodity but a supply of purchasing-power, which he later exchanges for the commodity he desires to possess. The vehicle that transfers this purchasing-power to him varies

according to the nature of the currency that the society has chosen to use. If the currency is a metal currency, he receives a supply of metal coins; if a token currency, a supply of tokens; if a cheque currency, a cheque. But in each case he takes what he receives, not for its own sake, but for the sake of the purchasing-power it gives him. When a cheque currency is used the amount of the purchasing-power is measured by figures that are written on the cheques. These figures perform the function of money.

The amount of purchasing-power a producer receives depends on the exchange-value of what he has produced. As soon as he has found a customer for his goods he is entitled to receive the amount of purchasing-power reflected by the exchange-value of the goods; no more, no less. On his part the consumer, to obtain possession of the goods, must transfer to the producer that amount of purchasing-power; no more, no less.

Now, when a society bases its economic system on the third method of commodity-exchange, each consumer must himself produce this purchasing-power. If he himself does not possess it he must hire it from a third party. The purchaser may be an individual person or a group of persons; a group may consist of any number of persons; the transaction may be large or small; but neither the identity of the purchaser nor the size or nature of the transaction makes any difference. For a transaction to take place, the would-be consumer must first obtain possession of the necessary purchasing-power.

On this idea our own economic system is founded. We say that no man can have a house, no city a bridge, no scientist a laboratory, no weaver a loom, etc., till each either possesses, or has been able to hire, the purchasing-power to give in exchange for the commodity. We may juggle as we like with our bills of exchange, our "documents," our bank-deposits, and the thing that deposit-bankers call "cash at the Bank of England." These bits of patchwork do not make a jot of difference to the principle on which the transaction is based. According to our way of doing things, commodities can only be procured in exchange for a supply of purchasing-power that already exists.

The idea common to the three methods of commodity-exchange we have examined is *that no consumer is able to purchase a commodity till he has obtained out of an existing supply the money that expresses the exchange-value of that commodity.*

That is the fallacy we are searching for.

* * * *

The first result of this fallacy is to produce the state called "capitalistic." It is also called "capitalist," but this adjective is also used as

a noun, to denote a person of capitalistic habits; so, to avoid confusion, I shall use the longer word in all adjectival contexts. It is not, however, a simple word to understand. Indeed, it has been so bandied about of late years that sometimes it seems to have no meaning left at all. We must therefore define it carefully, and, lest I should be suspected of making my point by shuffling with definitions, I propose to tie myself closely to such classical writers as Gide, Cunningham, and Ashley.

Gide says: "In primitive communities of hunters, fishermen, or shepherds, it was nature that supplied almost everything; then in ancient times it was joined by labour, first agricultural, afterwards industrial; while in modern societies capital has at length appeared, and dominates the other two to such an extent that the present regime is constantly described as a *capitalist regime*."¹

According to Gide, uncivilized societies do not use capital and are not capitalistic. Moreover, our forefathers did not use capital; nor were they capitalistic. Capital "at length appeared," and, having appeared, inaugurated a capitalistic regime.

Cunningham and Ashley agree with this. Speaking of the eleventh century, Cunningham says: "Stock-in-trade there undoubtedly was, but no Capital as we now use the term."² According to Ashley, "There was as yet no *capital* in the modern sense."³

What is this thing called Capital, which uncivilized societies have not, our forefathers had not, but which has "at length appeared" among us and turned our society into a capitalistic one?

The word comes to us through the medieval scholars. The Physiocrats introduced it into economic theory in the eighteenth century, and since then economists have spent much time and energy trying to define it. They have also tried to discover the origin and function of the thing called "capital," and one of the difficulties with which we have to contend is caused by the tendency of the user of the word to place on it such a definition as would fit his theories. This complicates the matter. The ideas it expresses existed in men's minds long before political economy was thought of, and it is probable that the economists have only got into difficulties with the word itself because, by trying to define it, they were attempting to petrify something that was fluid and in a constant state of change.

One man, Senior by name, said that capital was produced by saving; he called it *abstinence*. To make abstinence an efficient cause

¹ C. Gide, *Principles of Political Economy*, trans. E. F. Row, p. 63.

² W. Cunningham, *The Growth of English Industry and Commerce*, p. 4.

³ W. J. Ashley, *An Introduction to English Economic History and Theory*, Pt. I, p. 42 f.

in production is to turn a negative into an affirmative in a most careless manner. At the same time, saving, though it may not be a factor in production, is clearly one way in which capital may be formed; and this apparently is what Senior was trying to say. According to him, to become a capitalist, you must begin by saving.¹

This idea was common in the nineteenth century, and, living in a capitalistic society, we are apt to speak of the money we have saved as our "capital." This habit is encouraged by the fact that the amount of any capital is usually expressed in terms of money. But money is not capital and capital is not money. A man who lives in a non-capitalistic society can have any amount of money and yet have no capital. Conversely, a man in a capitalistic society may have any amount of capital and yet have no money. Money, we have seen, is a device that men use to state, measure and compare the exchange-value of their possessions; by derivation it also states and measures purchasing-power. In itself it is no more than this, and it can only be called "capital" under certain circumstances. Strictly speaking, it is potential capital, but it only becomes capital when someone takes it and utilizes it either by trading with it or by using it to help produce other commodities. When we say that the money we have saved is our capital we mean that it is available for such use.

When money is so used it is always exchanged for something else; this something else is also called capital. The value of this something else is usually expressed in terms of money, but we must not confuse the something else which is capital with the money that expresses its value. What we have to discover is the difference between capital and *capital as we now use the term*, for it is this, not capital itself, that "at length appeared" and inaugurated a capitalistic regime.

The difference becomes apparent if we consider the meaning attached to capital by orthodox economists. They use it in many different ways because it includes many different things. Marshall's definition is not very satisfactory. "By Capital," he says, "is meant all stored up provision for the production of material goods and for the attainment of those benefits which are commonly reckoned as part of income."² The second part of this sentence deprives it of any meaning. First "commonly reckoned" implies a popular and therefore a loose judgment; secondly, no man can define "income" without using the word "capital." Gide, indeed, in answer to the question, "What is income?" is unable to make any other reply than "all that

¹ Nassau W. Senior (1790-1864) was the first professor of political economy in England. He was elected to the Oxford chair, the first English chair of its kind, in 1825.

² A. Marshall, *Principles of Economics*, p. 138.

is not capital." So Marshall's definition comes to this: "Capital is all stored up provision for the attainment of things non-capital." But "stored-up provision" is a phrase worth remembering; for it expresses the same idea as these definitions of "capital":

A. R. J. Turgot :	"Accumulated values";
K. Marx :	"Dead labour";
James Mill :	"The accumulated or hoarded produce of previous industry";
F. W. Taussig :	"The concrete apparatus of production"; "previous labour";
N. W. Senior :	"An article of wealth, the result of human exertion, employed in the production or distribution of wealth";
J. S. Mill :	"An accumulated stock of the produce of labour";
T. R. Malthus :	"That part of the wealth of the country which is employed in production and consists of food, clothing, tools, raw material, machinery, etc. necessary to give effect to labour";
C. Gide :	"No wealth can be produced, in normal economic conditions, without the presence of a portion of pre-existing wealth. As a name must be given to this pre-existing wealth, we call it <i>Capital</i> ." ¹

Nowadays such sentences as these appear truisms; but what they express is important. Capital consists of pre-existing wealth. When we say that a man must have capital before he can produce a supply of commodities we mean that before he can begin to produce them he must have a supply of other commodities. This is also true of the capital used in trading. A trader may call his money his capital, but it is useless to him unless he purchases commodities with it, and these commodities must exist before his trading operations can begin.

But, capital, in this sense of the word, has existed throughout the ages. True, the *first* commodities that men ever produced *must* have been produced without the help of other commodities; but all men, uncivilized or civilized, of whom we have direct knowledge, use pre-existing wealth to produce other wealth. Among uncivilized peoples fishermen have their canoes, nets and hooks; hunters their spears,

¹ For these definitions, see E. Cannan, *A History of the Theories of Production and Distribution*, pp. 89-106; W. J. Ashley, *An Introduction to English Economic History and Theory*, Pt. II, pp. 429-33; C. Gide, *Principles of Political Economy*, trans. E. F. Row, p. 98.

agriculturists their ploughs. In medieval times our forefathers had their looms, harrows, saws, chisels and mortars. According to the definition placed on "capital" by the economists, these things were "capital"; they constituted an accumulated stock of previous industry. Yet we are told that in those days capital *as we now use the term* did not exist; and since it was capital in the modern sense that inaugurated the capitalistic regime under which we live, the use of such capital cannot constitute the use of capital in the modern sense.

The explanation of this apparent contradiction lies in the fact that in their attempt to define a popular word economists have made an "unreal" definition. Living in a society that had become capitalistic they tried to analyse the elements in it without thinking of much else. If they had enlarged the scope of their enquiries they would have seen that the definition they made, though not inaccurate, was valueless; for, whereas they sought to define what was happening in their own society, they merely succeeded in defining what happens in all societies. The peculiar character of the system they were examining did not emerge. Ashley makes short shrift of their work. Speaking of the eleventh century, he says: "There was as yet no capital in the modern sense. Of course there was capital in the sense in which the word is *defined* by orthodox economists 'wealth appropriated to reproductive employment'; for the villeins had ploughs, harrows, oxen, horses. But this is one of the most unreal of economic definitions." He then quotes Cunningham with approval: "By capital we habitually mean more than this; we mean a store of wealth which can be directed into new and more profitable channels as occasion arises."¹

We can now see what circumstances the economists neglected when they set out to define "capital"; these circumstances are those which create the difference between capital as it was used in medieval times and as it is used to-day. It is true that, strictly speaking, a savage's spear is his capital; but it is not true that if he is not using his spear a fellow-clansman will pay him for the use of it. The other fellow has his own spear. It is true that the medieval weaver's loom was his capital; but this weaver could not live idly on the money paid to him by another weaver for the use of the loom. That weaver had his own loom. Capital may consist of previously accumulated wealth, but, in the modern sense of "capital," the essential thing about that wealth is not that it has been accumulated but that it yields a revenue. For "capital," as we now use the term, to exist, there must prevail a condition in which the possession or control of wealth enables a man to

¹ W. J. Ashley, *An Introduction to English Economic History and Theory*, Pt. I, pp. 42-43.

enjoy an income without labour. The essence of a "capitalistic" society is that its members are afforded opportunities for investment.¹ In uncivilized societies these opportunities do not exist; therefore these societies are not capitalistic. The opportunities did not exist in the eleventh century; therefore, as Cunningham and Ashley insist, capital in the modern sense did not exist and society was not capitalistic.² It may be academically correct to define capital as pre-existing wealth, but the utilization of pre-existing wealth does not inaugurate a capitalistic regime. In the academic sense uncivilized men use "capital," but that does not make their societies "capitalistic." The medieval craftsmen used "capital," but medieval society was not capitalistic. When Gide says that "capital at length appeared" and inaugurated a capitalistic regime, he means that opportunities for investment were later afforded.

The manner in which the fallacy inherent in our method of commodity-exchange creates a capitalistic system is soon revealed if we use the word "capital" to include money available for investment.

In our capitalistic society, to obtain the pre-existing wealth called "capital," a man must possess or borrow the money-capital. In medieval times, if a craftsman wanted some stock-in-trade and had no ready money, he received what he needed on credit. And there was no need for him to have any special building to work in; he just hired a house and worked there. His needs were modest; a little raw material, a few tools and some loyal customers. But after this domestic economy had been succeeded by a factory economy, things were different, and the modern entrepreneur, to obtain his stock-in-trade and buildings, has to borrow money-capital from other persons. It was when traders and producers first began to borrow money-capital for their businesses that the opportunities for investment were created, and it was then that capital as we now use the term "at length appeared" and inaugurated the capitalistic regime. If it had never been necessary for any trader or producer to borrow money for his business no capitalistic regime could have emerged.

Now traders and producers are only compelled to borrow money because they have to pay for the existing wealth out of existing money. If this fallacy had been recognized as such no capital in the modern sense would have "at length appeared"; no capitalistic regime would have been inaugurated.

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¹ Cp. W. J. Ashley, *An Introduction to English Economic History and Theory*, Pt. II, pp. 433-4.

² Also op. cit., Pt. I, p. 155. "From the eleventh to the fourteenth century there was but a very small field for the investment of capital."

In every white society now there exists a large number of persons whose rebellion against contemporary conditions is intense. When they speak of economic things, they constantly refer to "capitalism" and "socialism" as if the one were the economic antithesis of the other. As used by reformers both "capitalism" and "socialism" are shapeless ideas that are never exactly defined, and there is much danger that the weight of political propaganda will soon persuade even thinking men and women that socialism is the economic antithesis of "capitalism"; whereas economically there is no difference between them.

When socialists harangue the uninstructed multitude they often declare that everything would be quite all right if we had socialism instead of capitalism; but the truth is that the basic faults for which socialists condemn capitalism are also inherent in any form of socialism. Thus we are sometimes told that we cannot "recover" till our deposit-banks are owned by the community. Such a cry appeals to the proletariat, but in saying such things socialists confess their ignorance of deposit-banking which is a relic of our metal-using days. Far from preserving it by nationalizing it, the white man, if he is to "recover," must abolish the practice as being primitive and useless. The system is unsuitable for energetic men; and you cannot change the system merely by changing the identity of the people that control it.

Other socialists say that if our mines and our railways (for instance) were nationalized everything would be well with them. But, again, you do not change the nature of an economic system by changing the identity of the people that own a few productive commodities. Even if the socialists had control of these and other things they would continue to speak, as they have always spoken, in terms of capital and investment. Some of them even write books telling people how to invest their money. All of them think that money-capital must be secured out of an existing sum before a consumer can receive a supply of commodities. The difference between socialists and capitalists is not economic but political. They have different ideas about who should control the money-capital, but both parties accept the fallacy inherent in our method of commodity-exchange as a doctrine of our economic system, and under those circumstances the emergent state, whichever controls it, is bound to be capitalistic; for a capitalistic system is the direct result of embracing that fallacy. Economically it does not matter whether the "capital" is controlled by a few persons, by a multitude of persons or by a hypothetical entity called the State; the system is fundamentally the same.

In trying to understand the thing loosely called socialism, this must always be remembered. It partly explains, I think, why such a variety

of persons can unite under a socialistic banner. There are socialists whose ideas are a weak dilution of the liberal ideas that were common in the last century; the men who control the capital invested in co-operative enterprises also call themselves socialists; so do the men who lead the wage-earners in their struggle against the entrepreneurs. Some socialists hate the bourgeoisie; French socialists, on the other hand, are themselves bourgeois and cannot be anything else. The nationalist socialists of Germany are usually called fascists by the British socialists, who themselves are divided into doctrinaire socialists, trade union socialists, co-operative socialists and Marxian socialists. They do not agree about much. Moreover, many of them heartily disliked, when first they heard of it, the particular kind of socialism favoured by the men who got control of Russian society in 1917.

The so-called socialism of the Russians is as capitalistic as the so-called capitalism of Great Britain or America. The difference between Russian and British or American society is not economic but political. The Russians agree with all other white societies in thinking that no group of men may obtain possession of any commodity unless they have produced out of an existing supply the money that expresses the exchange-value of that commodity. Under the Russian economic system there is opportunity to invest. True, the proceeds of investment are heavily taxed, but that does not alter the fact that investment, which is the essence of capitalism, can take place. There are also heavy death duties in Russia; the Russians hope that these duties will take much power away from the rentier class which *must* emerge in any society that gives its members opportunities for investment. This hope may be temporarily justified, but such economic patchwork does not change the character of the economic system, which is plainly capitalistic.

The thing loosely called "unemployment" (and too many diverse phenomena cluster in the shade of this word to allow a full discussion of the subject here) occurs when, owing to the acceptance of an idea which will be shown to be fallacious, the people controlling money have secured complete dominance of the society. But the fallacy cannot achieve its full results if each person has some acres to till; "unemployment" can only arise if the groups controlling money have deprived men of their acres. That was how Roman men became "unemployed" in the first century B.C. But even if men keep their acres the symptom called "unemployment" will still appear if the society becomes industrialized and money is in control. Neither situation yet exists in Russia, but the latter one will soon arise if an economic system founded on a fallacy is still pursued, and if industrialization

proceeds apace. To say that there is no unemployment in Russia now is like saying that there was no unemployment in England during the thirteenth century. The unemployment-producing factors were not operating then.

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The fallacy inherent in our method of commodity-exchange is embraced by men who have forgotten, or who have never known, the meaning of credit. Fundamentally, credit has nothing to do with money at all; it is a psychological, not an economic affair, and consists of the belief that in the future a man, or a group of men, will produce commodities of the same value as those already received. The value of commodities is usually expressed in money symbols; the extent of this credit or trust is often expressed in the same way; but the manner in which we express the amount of credit a man receives must not be allowed to conceal the reason why he receives credit. This confusion is very common to-day. For instance, among deposit-bankers the word "credit," instead of expressing the trust that one man or a group of men has in another man or group of men, is used to denote a kind of temporary mortgage. A deposit-banker will not often give credit unless he receives what he calls security; that is to say, before a producer of commodities can receive credit of £1,000, he must supply the deposit-banker with evidence that he possesses £1,000 in another place. In other words, the deposit-banker will only lend his clients' money to those who already have money. This is not credit at all but, as I have said, a kind of temporary mortgage of existing possessions.

If energetic men are to be granted facilities for the display of their energy, the economic structure must provide for the supply of money to every producer who finds a trusty customer. So soon as the producer has delivered the goods he is entitled to be credited with the full agreed value of those goods; the trusty customer is entitled to credit for those goods, that is to say, he is entitled to receive them on the understanding that in the future he will produce commodities of equal value. And so soon as he has produced the equal value he can discard the goods and receive other goods which, if his fellow citizens are energetic men, will be of fine workmanship, quality and design.

At present in every branch of the white civilization, old machinery is not discarded; it is kept going for the sake of profit, and this is one reason why machine-producers and ship-producers are idle. But it is not the main reason. In my view, the effect of the profits-motive has been much exaggerated by emotional journalists; the fundamental reason lies in the mental processes of which our economic structure is

a reflection and which have placed us in such a position that, to a large extent, producers are at the mercy of deposit-bankers. The deposit-banking system is a drag on the whole of human energy, and if the white man is ever to control his cultural destiny the deposit-banking system is the first part of the economic structure that must be changed.

It is convenient to summarize the manner in which the system prevents a display of energy.

(1) Deposit-bankers do not give the credit which must be given to trusty men or to trusty groups of men, if the producers of commodities are to receive their due.

(2) Most of what the deposit-bankers call credit is not credit at all, but a mere temporary mortgage of existing possessions.

(3) Even if the deposit-banking system were changed so that it gave the credit mentioned in (1) it would still be unsatisfactory, for the amount of its advances would still be limited by the amount of its deposits. In other words, the total value of commodities for which credit was given would still be limited instead of unlimited. This habit is a relic of the goldsmiths who made advances only up to an amount in proportion to their deposits.

(4) Even if the handicaps by (1) and (3) were abolished, the deposit-banking system would even then be unsatisfactory, for there yet remains in the minds of deposit-bankers another idea which is a relic of the bygone age of the goldsmiths. This is that a deposit-banker can only make temporary advances, whereas in an energetic society trusty men must be given credit for such a time as they take to pay for the commodities or for such a time as the commodities last. Of this I shall speak more fully in the next chapter.

The case against the deposit-banking system seems to be growing, but I am not attacking it without motive. My point is that it prevents a display of human energy; in my view it is an unintelligent system. No political programme showing the manner in which it can be changed is known to me. On this question the only difference between politicians is that some wish for deposit-banks to remain in the hands of joint-stock companies, others wish to "nationalize" them. Neither of these proposals is helpful, for neither goes to the root of the matter.

* * * *

We can now assess more of the broad effects produced by this fundamental fallacy in our economic system. It creates a state called "capitalistic" and makes usury a basic factor in the economic system. This in its turn warps the structure of the society by creating groups of non-working capitalists; (these, to distinguish them from entrepreneurs, I call rentiers).

It is often said that the human animal is an idle animal. Men do not work unless they must. But in this the human animal does not seem to differ from other animals, and if, when we call men "idle animals" we mean that their idleness is exceptional, we do men an injustice. The fact is, however, that if they can live without working they will, and none can deny that in trying to secure a living without doing anything in return for it the human animal displays much ingenuity. Human records contain many remarkable phenomena, but surely none is more remarkable than this, namely, that men are loath to use the powers with which they are naturally endowed.

Rather than face the facts, which would demand an effort, they cherish ideas which they suspect to be illusions; rather than act, they hope; rather than think, they accept what they wish to believe.

Let usury become the rule and such creatures are produced in abundance. In the seventeenth century, Fenton remarks, "The gains of usury are sweeter gains, without labour, without cost, without peril . . . painfull in respect of others, so easie, so cheape, so secure. It hath bewitched even the consciences of those who are most tender in other matters . . ." ¹

When Fenton said that usury bewitched consciences, he meant that when usury becomes a regular rule, standards of judgments change. It cannot be too greatly emphasized that social values are products of the age.

Sir Thos. Culpeper and Sir Josiah Child argued not against usury, but against the high rate of usury. Still, they noticed the effect that usury has on men; since men can be usurers, Culpeper says, "They grow lazie in their professions." ² Child noticed that after making a certain amount of money many men gave up trading and lived on usury, "The gain thereof being so easy, certain and great." ³

The condemnation of usury was a fundamental doctrine in Christendom. So powerful was the anti-usury tradition that even after the middle of the sixteenth century Jewel, one of the ablest defenders of the Reformation, could stand up in a church in London and command men "To forsake that cruel and detestable sin." "I hear," he said, "that there are certain men in this city which wallow wretchedly in this filthiness without repentance. . . . If they continue therein I will open their shame and denounce excommunication against them

¹ R. Fenton, *A Treatise of Usurie*, pp. 2 and 3. London, 1611.

² Sir Thomas Culpeper, *A Tract against Usury*, presented in High Court of Parliament, London, 1621.

³ Sir Josiah Child, *Brief Observations Concerning Trade and Interest of Money*, London, 1668. *A Short Addition to the Observations concerning Trade and Money*, London, 1668.

and publish their names in this place before you all, that you may know them and abhor them as the plagues and monsters of the world."

It took a brave man to speak like this in London when Elizabeth was Queen; and lest it should be thought that Jewel was using the word usury in a modified sense I quote his definition of it:

"Usury is a kind of lending money or corn or oil or wine or of any other thing, wherein we receive again the whole principal and somewhat more, for the use and occupying of the same. As, if I lend a hundred pounds and for it covenant to receive a hundred and five pounds or any other sum greater than was the sum which I did lend. This is that, that we call usury.

"Such a kind of bargaining no good man or godly man ever used. It is filthy gain, a work of darkness, a monster in nature, the overthrow of mighty kingdoms, the destruction of flourishing states, the decay of wealthy cities, the plague of the world, and the misery of the people. It is theft, it is the murdering of our brethren, it is the curse of God and the curse of the people. This is usury. Wheresoever it reigneth all those mischiefs ensue."¹

This is sufficient to show that modern Marxists have not condemned "capitalism" in more extravagant terms than the canonists and their successors condemned usury.

Moreover, in that same sermon Jewel made what he regarded as the final answer to those who tried to defend usury when the money lent was used in trade:

"What if a merchant take money to usury of a merchant and both be better and both be gainers. . . . Take this as a rule, there is no usury without loss." For usury, he argued, raised prices. "Who payeth it? Any man may see. The poor people who buy."

We may conclude, that, whatever modern Christians may think, the canonists would have condemned as contrary to the nature of things any economic system that allowed a person to amass wealth without labour of head or hand. They would also have praised a system under which only those who laboured received monetary reward.

The one thing we must remember is that the canonists never discussed the exchange and production of commodities used to produce other commodities. Their attention was confined to the exchange and production of commodities produced for direct consumption. In their day "capital" as we know it did not exist. Each craftsman had his tools, the carpenter his plane and saw, the mason his square and level; these were not regarded as his "capital" but merely as his tools. The

¹ *The Works of John Jewel*, ed. R. W. Jelf (Oxford, 1848), vii., 63, 80. Jewel was Bishop of Salisbury.

idea of the saw being a "capital" item as it is in a modern saw-mill never entered the heads of the canonists. This being recognized, their ideas and ideals are easily understood.

Sometimes it is difficult to tell what is the official attitude of the Catholic Church towards usury. In regard to the Anglican Church there is no doubt; many if not most of our Anglican priests are usurers themselves. The uncertainty about the attitude of the Vatican can be illustrated by a reference to what Pope Leo XIII said in his Encyclical Letter, *De Rerum Novarum*, May 15th, 1891. This Letter is still regarded as the workers' charter; it contains no explicit condemnation of usury. Nor does His Holiness make any declaration in favour of the abolition of usury. He merely condemns the greed and covetousness of usurers. After referring to the mischief caused by the subjection of working-men to "the hardheartedness of employers and the greed of unchecked competition," he says that the mischief has been increased "by rapacious usury, which, although more than once condemned by the Church, is nevertheless, under a different guise, but with the like injustice, still practised by covetous and grasping men."¹

The precise meaning of such a passage is uncertain; for we cannot tell whether all usury is being condemned and incidentally called rapacious, or whether only some forms of usury, that is, those judged to be rapacious, are being condemned—other and milder forms of it being regarded as within the pale. The latter seems probable; for if all forms of usury were being condemned we should have expected a more explicit statement of the Vatican's attitude. So it seems possible that in the opinion of contemporary Catholics the sinfulness of usury does not consist in its nature, as the canonists thought, but in its measure. But the words used by Leo XIII are by no means clear, and he may have meant to condemn usury altogether; in which case it is a pity he did not amplify his remarks by making some suggestions about the way in which it might be abolished. Rightly or wrongly, on reading the Letter carefully, I receive the impression that His Holiness was intentionally vague because he did not anticipate the disappearance of usury and thought the ideal unattainable. At any rate there is a great difference between the standpoint expressed in the Letter and the teaching emphasized in ancient Christendom.

If there is some doubt about the meaning of the appropriate passages in the Encyclical of 1891, there is none about the opinions of another Catholic publicist. Thus none hates usury more than Belloc. But, he declares, "there is no escape from it." Usury, he says, is

¹ *The Workers' Charter*, a translation of the Encyclical of Pope Leo XIII (Catholic Social Guild, Oxford, p. 12).

"ultimately destructive of society," and will surely destroy us. But nothing can be done about it. "You cannot pull out a vital part of any existing social structure." Nor, Belloc thinks, would any ecclesiastical ordinance avail against usury; "If it became a matter of Catholic discipline that men should not to-day touch that unclean thing . . . discipline would stand self-condemned. The ecclesiastical order could not be obeyed."¹

But is usury a thing from which there is no escape? Consider. Usury only exists because loans are necessary. We say that before a man or a group of men can receive a supply of commodities they must have the money wherewith to pay for them. For this purpose and for this purpose alone loans are necessary; and usury exists among us now because the loans must be paid for. But to say that a group of men must pay cash for their commodities is the same as saying that the producers of a commodity cannot receive the money that expresses its exchange-value till its consumers have produced or procured the money that expresses an equal value; which is the fundamental fallacy of our economic system. Usury exists because loans are necessary; loans are only necessary because we accept this fallacy. Thus the conclusion must be that usury only exists because we are foolish in that particular way. If men had never embraced that fallacy usury would never have come into existence at all. Far from being a thing from which there is no escape, as Belloc thinks, we could begin to abolish it to-morrow if we wished.

But, so far as a discussion of Christendom is concerned, the interest in Belloc's ideas about usury does not lie in his pessimism but in his definitions of usury. There can be no doubt that if the Schoolmen were alive to-day they would call him a great sinner.

Thomas of Aquinas defined usury as payment for the use of money lent. He did not care for what purpose the money was used. He condemned the whole practice as unjust. Belloc has other ideas. He admits that the sinfulness of usury lies in its nature, not in its measure. In this, perhaps, he differs from Pope Leo XIII (if I may speak of a Catholic publicist differing from a pronouncement made ex-cathedra by a reigning Pope). "You may demand one hundred per cent on a loan," Belloc says, "and be well within your moral rights." Usury consists in either (1) "interest on an unproductive loan," or (2) "interest on a productive loan greater than the annual increment in 'real wealth' that the loan creates."²

It is obvious, therefore, that Belloc would permit much that Aquinas

¹ H. Belloc, *Usury*, in *Essays of a Catholic* (separate reprint), pp. 5, 20-21.

² H. Belloc, *Usury*, in *Essays of a Catholic* (separate reprint), pp. 10-11, 21.

condemned. In other words, the attitude of contemporary Christians towards usury is weaker than that of the Schoolmen.

It is usury in Thomas of Aquinas' sense of the word that should be abolished. The distinction between a productive and an unproductive loan is vicious. Originally made by classical economists who committed the error of regarding money as productive in itself, it has sunk so deep into our consciousness that we overlook the essential similarity of all loans. All loans are the same in so far as the proceeds are invested in the same things, commodities. It does not matter whether a loan is productive or not; this remains true. Every means of production, raw material, plant, machinery, etc., consists of commodities; so every productive loan is invested in commodities like bridges, sewers, houses, roads, etc. To say that interest on a productive loan is not usury and that interest on an unproductive loan is usury is to make an invalid distinction between two things that are fundamentally the same. Belloc's definition of usury is a compromise and is unacceptable.

Another point about Belloc's ideas may be made here. He not only defines usury in a way no medieval Schoolman would have accepted; he not only says that usury will destroy us and that there is no escape from it: he also says that no man can tell whether a loan is usurious or not; for we cannot always tell whether it is productive or not. "The whole system of investment renders inquiry upon the productive or unproductive quality of an investment normally impossible."¹ According, therefore, to Belloc's definitions, usury is a sinful habit which will eventually destroy us but one which is, at the same time, unidentifiable. No wonder he is despondent. "A day will come," he cries, "it will indeed." Rubbish. We can get rid of usury if we like.

But, though it is usury in Thomas of Aquinas' sense of the word that should be abolished, I deny the validity of the argument he used in support of his judgment. When he referred to the saying of Aristotle that payment for the use of money was contrary to nature, he seems to have penetrated to the root of the matter; but, to rub his point in, he drew an unwarranted distinction between certain commodities.

To illustrate how unjust it is to charge a man for the use of money, Aquinas compared money with wine or corn. We consume corn when we use it for food, and wine when we use it for drink; and if we charge a man for the corn and for the use of it we charge for the same thing twice, which is unjust. In a similar way, Aquinas argued it is unjust to charge a man for the use of money; for in itself money is nothing and only has value when it is used.

Use does not consume money; therefore money cannot be compared

¹ H. Belloc, op. cit.

with corn. To make his point and to justify rent, Aquinas had to distinguish between corn and a house, so that payment for the consumption of the former need not be made and payment for the consumption of the latter could be legitimately asked. He was wrong: the distinction between corn and a house is invalid. Use consumes both; the only difference is in the time taken to consume them. "There are certain things," he says, "the use of which consists in their consumption. . . . On the other hand there are things the use of which does not consist in their consumption; thus to use a house is to dwell in it, not to destroy it. For this reason a man may lawfully charge for the use of his house and, besides this, revendicate the house from the person to whom he had granted its use, as happens in renting and letting a house."¹

But the whole point about it is that use does consume it. The idea that use does not consume a house is one of the ideas responsible for the state of our cities, for our slums, and for the continued existence of houses recognized as unfit for human habitation. Aquinas incurred a deep responsibility when he said that use does not consume a house, and the orthodox have followed him.

I have enlarged somewhat on what is one of the most important outcomes of the fundamental fallacy, namely usury. Besides creating a "capitalistic" system the fallacy warps the structure of a society by creating groups of idlers; it also gives to this society standards which are commonly called bourgeois. Although it passes almost as a cliche to state that men are creatures of their environment, few people grasp the full truth that the standards by which men judge are the products of the cultural environment.

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The fallacy also, in giving rise to large conglomerations of capital, forms chains of retail shops which penetrate to provincial towns and eliminate the private trader there. Capital has power to dictate prices and conditions to producers. It makes thrift a virtue; and creates great riches and dire poverty.

This fallacy is also responsible for the shape of our cities; it prevents rebuilding; disfigures the country-side with wires and cables which but for "cost" would be laid underground; encourages bad work because it is "cheap"; handicaps engineering and transport, and, in short, in every way limits the display of human energy.

That is not to say that all our so-called "economic problems" are created by this fallacy. It is the fundamental folly only in the sense

¹ I use the translation made by the Fathers of the English Dominican Province.

that when energetic men commit it they thereby shoulder a burden that in the end becomes too heavy for them to bear.

It would not be wrong to say that every political movement in our time has as its final object the modification of this fundamental fallacy's inevitable influence. Take any political party you like : the so-called Conservatives (what do they conserve ?); the Liberals, where they still exist ; radical Socialists, doctrinaire Socialists, trade union Socialists ; Co-operatives and their like ; Distributists ; the upholders of Social Credit ; the National Socialist Party in Germany, the Fascist Party in Italy, the Communist Party in Russia, and the men behind the New Deal in the United States of America ; all of them struggle against the effect that the fallacy produces ; yet all of them assume without question that the idea in which the fallacy consists is " true." Their common helplessness in the face of the situation that confronts them is one of the most glaring examples of the difficulty men experience in thinking otherwise than along the well-worn lines laid down in the past.

As I look back along the stream of time it appears to me that, to save themselves from the consequences of this fallacy, men have tried almost every method except one : the abolition of the idea responsible for the trouble. To my knowledge, the abolition of the fallacy has never yet been mooted. Yet this is certain : if the fallacy is pursued and the society gets beyond a certain state of energy, the economical structure *must* dissolve. No other outcome is possible. The dissolution may be postponed, but it must eventually take place ; for the fallacy warps the structure of a society in such a way that the time comes when the structure can no longer hold together.

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In itself money has no power at all. It is a symbol that assists the exchange of commodities, by stating in a simple and convenient way their exchange-value. Yet in the career of every energetic society there has come a time when money was not only powerful but even all-powerful. This is the case among us now. And when money has power there comes into existence a group of men who, since they control money, are all-powerful. These persons, to protect their common interests, form themselves into powerful groups and eventually dominate the society. Human energy can then only be displayed in a manner that suits their convenience, which is the convenience of money.

This group of men is commonly called the money-power, for the members of the group do not derive their power from their own abilities but from the power of the money which they control. The

money may not be theirs; it may belong to other men. The money-power is all-powerful not because of the possession of money but because of the control, which itself is all-powerful. A famous demagogue, William Jennings Bryan, once described money-power like this: "The money-power preys upon the nation in time of peace, and conspires against it in times of adversity. It is more despotic than monarchy, more insolent than autocracy, more selfish than bureaucracy. It denounces as public enemies all those who question its methods or throw light on its crimes. It can only be overthrown by the awakened conscience of a nation."

If a society bases its economics on the assumption that no man can receive a commodity until he possesses or procures the money to pay for it, those who control it are able to dictate the terms on which money shall be hired out. On them will ultimately depend the production of commodities, the wages of the workers and the prices the consumers must pay for the commodities. A symbol invented for the convenience of men thus becomes the controlling factor in their lives. The servant becomes master. Commodities will not be produced because men wish to display their energy, or because there is a need or demand for them, but because the production suits the interest of those who control money. Conversely, if the production of a commodity conflicts with the interests of those who control money, the production does not take place. Production only takes place when it suits money or for the sake of money.

The goldsmiths found that by loaning their clients' money or metal to a third party, they could gain a larger sum from the borrower than they paid to the depositor. Thus they could make an easy profit. They became rich. This means they procured a large purchasing-power towards the creation of which they had done nothing. Now the extent of purchasing-power in a country is limited by the wealth produced, and the purchasing-power the goldsmiths secured must therefore have existed before and had now passed into their hands. Whence came it? The owner of the valuables or money deposited with them did not pay anything to the goldsmith; on the contrary, he actually received something (now called "interest") for the use of his money by the goldsmith. It must have come then from the one who hired the money, that is, the producer of commodities. The goldsmith produced nothing, but he made a rich living.

The heirs of the goldsmith are our deposit-bankers and other money-lenders. Vast quantities of purchasing-power accrues to them. Money is deposited with them from millions of clients, and they hire out this money to manufacturers and other producers, who, out of the returns

they receive, must pay to the money-lenders the cost of hiring the money. Part of this cost is paid to the depositors in order to encourage them to continue asking the banks to keep it for them, but a large margin remains for those who own the money-lending business. Thus in the price of every commodity is included a sum paid for the hiring of money. The process is easy and profitable, and it is small wonder that the ambition of all citizens is to become one of the company that hires out money. The important thing to note is that they have produced nothing, but have nevertheless accumulated great purchasing-power.

The nature of the control that the money-power exercises and the way it influences society will be shown later. The essential point to note here is that money, which was designed to be merely a symbol, has been raised to the status of an entity, something to be handled and negotiated as a commodity in and by itself.

All material wealth has its origin in the earth. The commodities thus obtained are as a rule not in such a state as to be of immediate use to man. Men do not eat wheat in the form in which it grows; wood, sap and bark from trees, metal ores, hides of animals are of little use for man's needs until he has applied to them his own labour. It may be said therefore that there are only two sources of wealth, nature and labour. Those who extract the materials from the earth or sea, and those who work on them to convert them to useful commodities are the actual wealth producers, and are thus the first essential people in the community. The second essential class consists of those who, while not concerned in any way with the production of goods, are necessary for the handling and distribution of the materials and commodities. This class includes all carriers and transport personnel, wholesalers and retailers. The third essential class includes the social services, such as medical, educative, religious and those who supply water, power and amenities considered desirable for a civilized life. These three classes make up a self-contained community, and fundamentally are all that is necessary. All such are entitled to a share of the wealth produced.

To what class do those who neither produce, nor handle commodities, nor render social services belong? They evidently form a class by themselves and what we have to ascertain is whether that class is essential, or whether society could be run satisfactorily without it. This question will be discussed in the next chapter, but before considering it, it may be desirable to enquire how this class is organized, and what is the nature of the contribution it makes.

Many people are able to produce a larger purchasing-power by their

labour than is necessary to expend in securing the adequate means of living. That is, after purchasing their food and clothing, paying rent for their houses, making contributions to the social services, education, water, light, heat, clean streets and all the other amenities of life, recompensing doctors, dentists, gardeners and other professional classes, purchasing equipment such as furniture, radios, cars and other desirable or useful possessions—after paying for all of these things, they still have a surplus of purchasing-power. In short, they are able to save. These savings are placed in the banks, which are then able to loan them to commercial and public enterprises.

The money therefore that the bank loans does not belong to the bank nor to the bank shareholders. For the use of the money the people have saved, the banks are willing to pay a small remuneration, and they reap a profit by loaning it out to other producers. The purchasing-power the directors and shareholders thus secure becomes a mortgage on future production, which will have to be paid off out of the labour of those who work on such production. Now if those who wish to and who can produce articles for the use and comfort of mankind could secure the necessary "capital" without incurring this mortgage, one of two things would result. Either the producer would secure a larger proportion of the new wealth, that is, wages would rise, or those who wished to possess the new articles would procure them at a cheaper price. It would seem then that if this mortgage could be avoided, the whole community would benefit.

The banker has, of course, rendered some service to his own clients in that he has not only preserved their savings but paid them something for the use of those savings. Only those, however, who have been able to save are benefited. The community as a whole has secured no direct benefit.

The demands for loans to start and support new undertakings have been tremendous during the last hundred years, and as technology improves and more scientific discoveries are made, the demand will increase still further. This demand brought about the formation of joint-stock companies. Instead of borrowing the money from the bankers, who were thus placed in an all-dominating position, the directors or company-promoters appealed to the people for the use of their savings, promising them larger returns than the banks could offer. In the hope of accumulating large purchasing-power (in short, of getting rich without effort, and without producing anything) the public have been persuaded into "investing" their savings in these companies. No doubt many of these companies, probably the majority of them, have been quite honest in their dealings, but that does not alter

the result that the directors and their staffs have secured very profitable livelihoods by merely controlling the finances.

Thus, those who control the money-power are recompensed at the expense either of the workers, whose labour brought the new commodities into being, or of the consumers of the goods produced.

The directors or company-promoters, that is those usually included under the term "financiers," are often interested in a number of companies, and, in order to make each one a separate and independent entity, are able to limit their liability in each one by forming their companies according to the terms of the Limited Liability Act. This Act can also be used to enable the private company to limit its liability to the extent of the fully paid up value of its shares. Thus, if a company fails, the creditors are unable to claim any wealth belonging to the defaulters other than what is invested in that particular company. This system is now so prevalent that it is hardly considered "safe" to do business in any other way. The investors understand this, and loan their money on those conditions.

Since the starting of any new ventures carries with it a certain element of risk, this seems a perfectly fair and reasonable arrangement, but the effect has been to encourage the existence of the "financial" class who thrive by negotiating and controlling companies of this type. The goods they handle is "money," and thus money becomes petrified into a commodity which is bought and sold (borrowed and hired) like other commodities. Each time it is passed, profits result, all of which must come out of the wealth created. As this class has produced nothing, it is in effect parasitic, living on the labour and services of others. The system readily lends itself to the absolute control of commodities. If a large company producing what has become an obsolete article wishes to discourage the circulation or production of a newer and better substitute, which might render the present company useless, it can often be done by buying the new company and dissolving it. Thus is progress retarded, and the energy of the people handicapped—for the reason only that it does not suit the interests of the money-power that such progress should be placed at the disposal of or for the use of the general public. Old and disgraceful buildings are kept in use because those who have their money invested in them would lose something if they were demolished. Much needed public buildings, rest centres, parks and playgrounds cannot be brought into being because it does not suit the money-power, for such projects are unprofitable to the financiers. These and many other desirable institutions, such as hospitals, research laboratories and so on must therefore depend upon charity.

The large number and variety of insurance companies are signs that this method of getting rich is also a most profitable one. These companies also handle money as a commodity, and make profits for their directors and shareholders by manipulating the savings of the people at the expense of the welfare of the community at large. High salaries, substantial directors' fees, fat dividends are reaped by the financiers who, with a comparatively small investment of their own money, merely use and manipulate the savings of the insured. Every man who works or renders service is entitled, as has already been stated, to a share of the common increase of wealth, and such remuneration should be according to the work and responsibility he undertakes, but excessive salaries as well as unearned sums paid to those who have produced nothing or have not rendered services consonant with those incomes, are simply depredations on the wealth of the country. They are taken from the funds subscribed by the policy-holders. Were it possible to take from money this quality of "petrification," either the premiums would be smaller or the benefits larger, either of which would benefit those to whom the money really belongs.

This petrification of money and its promotion to the status of an entity instead of being merely the medium of stating the exchange-value of commodities, which is its true function, leads to money-markets and gambling in stocks and shares in these financial companies. I am not concerned with the ethics of this method of gambling (it is interesting to reflect, however, that some minor forms of gambling are prohibited by law!) but only in its effect on the economic life of the people. The act of borrowing money from those who have saved, and risking it in ventures and in such a way that the investors have little or no control, merely in order to reap profits without rendering any service to the community or increasing the wealth of the country by some real contribution, has resulted in the formation of institutions for that sole purpose. Stock exchanges are fully legalized, it is true, and have become a part of our economic structure. Fortunes are made by those dealing in money as a commodity, and so desirable has it become in our society to "get something for nothing," that these gentlemen are esteemed as valuable members of society. No blame or aspersions can be cast on them. It is the system that is open to question and condemnation. The drain on the wealth produced by the large incomes and profits made by non-producers robs the essential classes of some of their rights, and reduces the general level of incomes of the workers, and raises prices of commodities.

The "watering of stock" is another device employed by these ingenious people who get rich at the expense of the wealth-producers.

The gift of shares in a company for which the recipient pays nothing, but which he can sell for real money and from which he can reap dividends, is a burden on industry that will also reflect on wages and prices.

The "rigging" of the money-market and the forcing of the value of shares up or down as and when the process can be made profitable to the financiers, irrespective of the quantities and values of the commodities being produced, is another result that becomes possible when money is petrified and treated as a commodity.

It has been pointed out elsewhere that our youth is brought up to the ideas that success in life is to be measured by the extent to which money can be accumulated and invested in the money-market so as to enable the investor to live without working and without contributing anything to his country. This is surely a wrong principle if the object is to develop the greatest possible energy in society. We have come to look upon the economic parasitic class as the elite of society, and these ideas sadly need revision.

Thus the second fallacy in our economic system may be summarized by stating that *what is merely a symbol has been promoted to the status of an entity and this is followed by the petrification of money and the granting to it of permanent existence.* The despotic, insolent, selfish money-power of which William Jennings Bryan spoke is created by this fallacy.

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So far we have seen that, in the white man's society, two fallacies are apparent.

1. An erroneous idea of what money is creates the idea that before human energy can be exerted money must be forthcoming. The mistake is due to an inversion of the facts, the truth being that money cannot exist before social energy has been displayed.

2. Money is created by other means than by social energy, of which money is only the mathematical or material expression. Thus, some people, protected by laws, enjoy the purchasing-power of money without reason. This money, having been created, has purchasing-power, and in the white man's society, there is a great deal of purchasing-power which has been given to it by ill-conceived laws.

A further fallacy exists *in the issue of money without the production of commodities.*

In order to be economically justified, money can only be created by commodities. Purchasing-power should depend on energy. Now it depends on law and caprice. This fallacy is apparent in the issue of notes without the production of commodities. To understand how

this came into being, we shall have to refer again to Banking in the eighteenth century, which I mentioned in the chapter on Money and Currency.

Cheque-currency and token-currency have superseded the old metal-currency, which has almost ceased to exist. So the nature of what is deposited in a deposit-bank has changed ; but the principle of deposit-banking remains the same. And there is no doubt that many thoughtful deposit-bankers are greatly puzzled by the queer nature of their position. They genuinely desire to assist as much as possible in the process of commodity-production and commodity-exchange ; they realize too that the process is being considerably embarrassed by the limitations placed on their activities ; but they cannot consent to change their ways till they are given some new "principles" in the place of those inherited from the old goldsmiths. And they are probably wise. Their policy may be dictated to them by the ghost of the dead past, but it seems better to act on some principle than on no principle at all which is what some of our enthusiastic reformers appear to wish.

In the study of the cultural process we must always be careful not to confuse the meaning we attach to a word and the meaning attached to it at other times. Words are constantly changing their significance, and the word "bank" is no exception. Nowadays, when a plain man speaks of a bank, he nearly always means a deposit-bank. And originally banks were places of deposit. But in the eighteenth century and in the first half of the nineteenth, things were different.

The great date in English banking history is 1844. Before then, and even for some time afterwards, bankers were thought of as men who issued currency in the form of notes. These notes were one of the devices our fathers invented in order to help their metal-currency do the work required of it ; and if a bank did not issue notes it was hardly regarded as a bank at all, so great had been the changes since the end of the seventeenth century. Yet in the eighteenth century bank-notes were not legal tender, not even Bank of England notes ; they were only made legal tender in 1833. And the Bank of England was by no means the rock-line institution that the Act of 1844 made it. Indeed, between 1797 and 1821 it refused to make any specie payments, so great were the difficulties it experienced in the handling of a metal-currency. A similar situation existed between 1814 and 1925, and the effort to make a metal-currency work was finally abandoned in 1931, since when we have had a "managed" currency ; that is to say, we do not now issue currency on any principle but as seems expedient and necessary. But what that currency is its managers do not care to inquire ; and it may be said that, so far as our currency is concerned,

we are living in a time of uncertainty and compromise. The engine has definitely broken down, and our statesmen are probably relieved if they can keep it from entirely disintegrating. They receive advice from many thinkers, and there issue from our printing presses many pages of discussion and debate on the currency-question; the ideas contained in these books are not new but consist of variations on a theme which has been debated since the beginning of the eighteenth century. Between the founding of the Bank of England in 1694 and the passing of the Act of 1844, our ancestors were constantly tinkering with their system of currency-issue, and their methods and ideas have become part of our inherited tradition. The result is that the question of currency-issue is always discussed from the same old standpoint, and it is this standpoint we must abandon if we are to create a satisfactory economic system.

We can best understand the ideas we must abandon if we consider what happened in the eighteenth and early nineteenth centuries.

The process of commodity-exchange is not regular and uniform but irregular and spasmodic. Like everything else in "nature," it works by jumps, and there is always a seasonable variation. When England was an almost exclusively agricultural country more currency was needed at harvest-time than at other times; that is to say, at certain times of the year men required an increased supply of the metal used as currency. Even to-day it would not be easy to move great lumps of metal from place to place; in the seventeenth and eighteenth centuries it was impossible; and in many districts, at certain times of the year, there was a great shortage of currency. Men were energetic and keen, and wished to exchange an increasing number of commodities, but their efforts to do so were seriously handicapped because there was not available, in their district, enough of the metal used as the medium of exchange. Fortunately in each district there were one or two rich honourable men, brewers, merchants, clothiers, or yeomen, and these men came to the rescue. Instead of moving their supply of gold from the place where they stored it they issued pieces of paper on which they wrote a promise to pay metal on demand, and traders accepted these notes as a convenient substitute for the scarce metal. Every one trusted the rich honourable men, who were, indeed, worthy of their trust; so at first there was no difficulty in passing the notes from one man to another, and soon the notes came to be regarded as a normal kind of currency. The labourers took them as wages and exchanged them for food and clothes; craftsmen accepted them in settlement of their due; merchants exchanged them for merchandise, the weavers for corn and wool, and so on. Moreover, if a yeoman had not yet received the full

exchange-value of his harvest and wool, he went to one of the rich honourable men and borrowed a supply of notes, with which he settled his immediate liabilities, and purchased the seed for his next planting, and the fresh young ram for his flocks, and some of the new agricultural equipment that was then being invented. And when he received the exchange-value of his harvest he willingly accepted notes, which he returned to the rich honourable man and thus liquidated his debt.

It was in this manner that commodities were exchanged. Since metal could not be obtained men used the next best thing, a promise on the part of a trustworthy man to pay metal on demand. It would have been easier to use cheques, but it happened that cheques were not used. Certainly no man ever contemplated the abolition of metal as currency. And the new system not only enabled commodities but also an increasing number of commodities to be exchanged. Men who wished to extend their business or to enlarge their premises received the advances they required ; merchants were provided with additional funds ; builders, craftsmen, weavers, joiners and producers of all kinds were able to conduct their affairs with greater ease ; worthy men who happened to be suffering from a stroke of bad luck were carefully nursed back to financial health ; bankruptcies, which would have been local disasters, were avoided by generosity and foresight ; the weak were supported, the strong encouraged, the brave rewarded, and the slaggard shamed before his energetic fellows. The rich honourable men, of course, got richer, and soon began to exercise a dominating control over local affairs. They could make men, break men and generally do as they liked ; but they were vital to the welfare of the community. Moreover, we must believe that at first they were really honourable ; most of them were honourable all the time. Their history is full of the most splendid stories, and we ourselves would probably face our troubles with greater assurance if we had as high a standard of conduct as they had. Many of them, like the Gurneys of Norwich and Jonathan Backhouse of Darlington, were Quakers, who protected their good names with courage, resolution and quiet honour.

So strong was the tradition for honesty and care that they created, so jealous were they of their reputation that even after 1858, when the principle of limited liability was made legally applicable to joint-stock banks, little use was made of the privilege which was thought to reflect on the stability of the bank. In 1878, however, the failure of the Glasgow bank opened the eyes of investors to the risks they ran when their liability was not limited. Most of the shareholders in that bank

were reduced to poverty, and soon afterwards every joint-stock bank became a limited liability one, for till a bank had made the change its shares were almost unsaleable. This was a full generation after the passing of the 1844 Act; and it seems impossible to exaggerate either the high standards of conduct that prevailed in the eighteenth century or the extent of the assistance which the privately issued notes gave to every kind of producer and trader. And it was not long before the occupation of issuing notes, originally undertaken as a side-line, became the most important part of the business. The descendants of the original men became the country bankers who, till 1844, supplied most of the oil by means of which alone the creaking engine of metal-currency could be made to turn round.

Now the country bankers would have rendered great services if they had merely issued notes to the value of the metal they possessed; and in all probability this is what they originally did; but *they soon began to issue as many as they thought they would be trusted for*. There was no legal limit, and the country was soon flooded with notes that could not be covered by metal.

No blame attaches to the country bankers for what they did. Their riches naturally increased a hundredfold, for if a man is permitted to charge interest for the use of currency he has created out of nothing there seems to be no limit to the wealth he can amass. Besides by accident or design, the Bank of England Charter had been so drawn up as not only to support the activities of the country banker but also to confine to a few men the privileges of being country bankers.

The Bank of England was originally a Whig institution, devoted to Whig interests, and desired by Whigs alone. The Tories hated the idea of it. Banks, they said, only existed in republics like Venice and among dissenters; and they would have nothing to do with the idea of forming a Bank in England. But the currency was in a deplorable state, worn and clipped, and the execution of batches of clippers did not appear to stop clipping. Moreover, the government, which had just ceased to be synonymous with the Crown, was in dire straits for money. Besides, dissenters were now numerous, and they were disgusted with the way in which the Lord Mayor sold offices, and with certain other practices that were allowed. They were strongly represented in the towns; and they demanded that something should be done, more especially (and this argument probably appealed to many of the Tories too) as there was some danger of the Pope coming to the rescue of the government if something was not done. So the Ways and Means Bill, which established the Bank, was passed. (It is said that there were only 42 members present in the House.)

As originally formed the Bank was nothing like it is now. It was a strictly private enterprise, out for profit, formed to lend twelve hundred thousand pounds of metal to the government, whose good faith was accepted as security. The rate of interest was eight per cent; the Bank was to receive four thousand pounds of metal each year for managing the government's accounts, which became the Bank's concern; and in return for their generosity in coming to the government's rescue, the proprietors of the Bank were given various privileges. They were allowed, of course, to receive deposits from any client; on these four per cent was paid; but this was normal business and could hardly be regarded as a privilege. They were also allowed to issue notes, and nothing was said about the convertibility of the notes; but this again was normal business and hardly a special privilege. The important privilege they gained was the concession that no other separate body of men, "created or to be created," exceeding six in number, could issue notes. This was expressly stated in the Charter in 1708, and at that time, as I have said, men thought that no bank could possibly be run successfully unless it had the power to issue notes. So the Charter was interpreted as conferring on the Bank of England a monopoly of joint-stock banking. It certainly prevented the formation of a joint-stock enterprise to issue notes. So the country bankers, their sons, nephews and partners, were able to pursue their lucrative activities without hindrance or competition.

And, lest we misunderstand what happened, let us remember that if the country bankers had not issued more notes than they could cover, the value of the services they rendered would have been sadly reduced. The trouble with the metal-currency was not only that it was not available in the place where it was wanted but also, more important, that there was not enough of it anywhere. Every intelligent man realized the folly of an unlimited issue of notes, but he also realized that the supply of currency had to be increased somehow, and the issue of notes seemed the best method. The one thing that no man thought of was the abolition of metal-currency, and few men have thought of it since, in practice anyhow.

There was this argument in favour of the issue of notes without cover; so long as the banker's clients did not all demand metal at the same time, he was relatively safe, and one of the questions that every banker had to decide was how much metal he should keep in stock for every hundred pounds of notes that he issued. None doubted that a banker who had the right to issue notes was entitled to issue more than he could cover; the only question was by how much he could exceed his metal possessions. And even to-day economists write learned books

about the amount of metal a man should have before he issues a hundred pounds of notes. In America the Federal Reserve Banks have to keep thirty-five per cent of their total deposits in cash; this ordinance is dictated by the ghost of the goldsmith who sits in the board room; but the Federal Reserve Banks are also controlled by another ordinance, equally haphazard in character; they cannot issue a hundred pounds worth of notes unless they have forty-one pounds of metal. At least these were the original figures. There is no cogent reason why the figures should have been thirty-five and forty-one; they were merely intelligent guesses; and such a system of currency issue is called the system of the proportionate gold reserve, because the amount of the note-issue must always be in proportion to the amount of metal in the vaults.

A similar system was created by "the most learned and illustrious American and European Bankers" when they dictated a new banking system to the Germans. Under that system the Reichsbank was to hold thirty-three and one third gold or foreign exchange against its note-issue. Again, the figure was an arbitrary one, a guess; and it may be noted that the illustrious bankers were more strict with the Germans than they were with themselves, for they ordained that the part of the German issue not covered by metal should be covered by commercial bills or approved securities. The system has now crashed, and no one knows what the German system is; but the point to be noticed is that within the last decade the most learned and illustrious bankers in the world thought it necessary for a currency-issue to be based on metal. Indeed, throughout the world there is still a large assortment of gold standards (exchange of currency for gold), gold specie standards (local currency into gold coin), gold bullion standards (currency into bullion), and gold exchange standards (currency into foreign exchange alleged to be convertible into gold). If we remember the disadvantages of a metal-currency we cannot wonder that these systems are unstable; yet the societies that groan beneath the burden of such institutions never seem to doubt that currency must be metal and its issue based on metal. They perceive that metal will not do the work they require, so they try to patch it by these various methods; but they hardly ever think of discarding metal completely. In America the proportion of gold to the note-issue has often been changed; all to no purpose, except the profits of bankers. President Roosevelt has even been driven to adopt the old trick of debasing the currency. He has decreased the amount of gold in the dollar, so that the gold value of the public debts could be reduced and the banks could issue a greater number of notes. He has experimented with silver as well as

with gold. He has "sold" securities to the banks and used the proceeds for public works and public relief. Yet he has failed. And it is not difficult to see the basic reason why he, and any other man who submits any similar kind of "New Deal" must continue to fail; for he is merely trying to patch a metal-currency system, which can never be made to do the work he requires. To succeed he must first discard a metal-currency and then abolish the fallacies inherent in our economic system.

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A further fallacy exists in the idea that land is a Commodity.

Wealth cannot be discussed apart from the question of land tenure. In the past, men have placed a value on land, have bought and sold land, and estimated a person's wealth by the amount of land he possessed. This has been the result of expansive energy. An expansive society has burst its boundaries, conquered less energetic people, taken their land and compelled them to pay tribute. Before they were conquered these people did not place a value on their land; it was simply theirs. So far as they could they would defend it against any stranger, but they did not buy and sell any portion of it. It was an integral part of their life; it never occurred to them to exchange it for goods or what we call riches. Their conquerors had different ideas and, being more energetic, they began to develop it, to sell its produce and thereby to place a value on each bit of it; and if the land was too poor to bear fruit, then the mere demands of tribute paid by the conquered people, being revenue, gave the land a human value, apart from a natural and potential value. Thus land that had no value at all began to have value, and the conquerors became rich from this very fact. That is one reason why the question of wealth always raises the question of land tenure.

Men cannot create things; they can merely reshape or re-arrange existing material. This material consists of the resources that lie beneath the land, the natural products of the land and the organisms that live on the land; and when a society becomes productively energetic, it develops these resources, discovers new ways of treating material and creates an abundance of goods out of it. Less energetic societies neglect these resources so that they remain poor. Productive societies grow rich according to the extent to which they develop the natural resources; and their wealth consists in part of these resources.

I draw a rigid distinction between a building and the land on which it stands. Whenever I speak of a house or building without qualification, I refer only to the building itself. This distinction has not always been made and in my view much confusion has been caused in

consequence. The distinction is vital to any discussion of private rights. It is also necessary to clear thinking, first because the land exists whether or not men occupy it, whereas houses and buildings are human creations; secondly, because a house, being a human creation, possesses economic qualities which land can never possess. It is these distinctions that hitherto have been overlooked.

Every man has a longing for independence and, if he be a good citizen, a delight in responsibility and a joy in creation. Nothing but possessions of his own can give independence of thought and the satisfaction of creative energy. Thus, at first sight, it would appear that private ownership of land would be in accordance with man's nature. But land is in a different category to other possessions. Since land cannot be produced, increased or decreased (reclamation of land such as in the Zuyder Zee in Holland is, of course, possible but such small areas in comparison to the extent of all land are negligible); the nation, that is, the whole body of the people, should be the sole owner of the land. Being limited in extent and fixed as regards its nature, it stands in a class by itself.

Those who are capable of working the land and producing from it the materials that are useful to man should not be victimized by a private landlord or by any municipal authority. Only by being able to use his skill and ingenuity will a man provide from the land all the materials required in abundance and with as little injury to the land itself as possible. Such skill will be best applied when the worker has a personal stake in the land. On principle, however, he should not *own* it. A man should hold the land he occupies or is able to exploit for wealth, and no more. Land held in fee simple should not be saleable, nor should the holder of it be able to sell his rights over it. The rights may be inheritable. Land would then have no fluctuating value, but the rights over it would have a value, which would belong to the whole nation and therefore would be payable to the State.

Some land is much more useful than other land. The demands of men to use land will rise or fall according to its content, fertility or location. Since all land belongs primarily to the whole body of the people, so also its content. A mine discovered in land hitherto of little use (i.e. value) should not become the sole possession of some individual who happened to possess the land. The fact that he can suddenly become rich through the fortune of nature and not by his own effort gives him purchasing-power for which he has done nothing, and for which he has rendered no service to the community. The rights to that land have increased in value and those who apply their labour to the development of the mine must now pay to the community the value of

such rights. For any individual (or company) to have possession and control of materials that are useful to the community gives to him or them a dominance over other lives that will work for good or ill according to the owners' whim or caprice. No matter how great the demand or need for the commodity, an "owner" is in a position to prevent its production and circulation, or only to release it on terms that work to his private advantage; whereas he who has to pay the rights on the land will develop its potentialities, thereby adding to the wealth of the country, whilst reaping as great an income as possible for himself.

All men are dependent on the products of the land and our system of land ownership has been responsible for some of our greatest social evils.

* * * *

An examination of the third method of commodity-exchange has thus revealed four fundamental fallacies which have been (and still are) the causes of many of the evils in our social conditions. They may be summarized as follows:

Number one is the idea that no consumer is able to purchase a commodity till he has obtained, out of an existing supply, the money that expresses the exchange-value of that commodity.

Number two consists in the petrification of money and the granting to it of permanent existence.

Number three consists in the issue of money without the production of commodities.

Number four is the idea that land is a commodity.

Chapter VI

THE FOURTH METHOD

WE have seen that it is essential for currency to keep pace with the demands of commodity-exchange process; or the people will suffer. Reduced to exact terms, this means that the quantity of available currency must always be in proportion to, and only limited by, the total value of the commodities the people wish to exchange; otherwise the process of commodity-exchange will be embarrassed by a superfluity or handicapped by a shortage of currency. Cheque-currency is the only form of currency that possesses this virtue.

When cheques are used as currency, X commodity A is first exchanged for a cheque, on which certain figures are written. The function of the cheque is to act as the medium of exchange by carrying the figures from the consumer to the producer. The figures represent the exchange-value of the commodities the consumer has received. When the cheque has been accepted it is sent to a convenient place to be cleared. This clearing consists in the actual transfer of the figures from the person signing the cheque to the person named on the cheque. A clerk takes the cheque, adds the figures to the total already in possession of the vendor and subtracts them from the total possessed by the purchaser. This concludes this part of the transaction. The cheque has done its work and can be destroyed.

The person in whose favour the cheque is drawn is now entitled to receive commodities to the value expressed by the figures. In his use of this purchasing-power he can split the total how he pleases according to the value of the commodities he wishes to possess. When he purchases those commodities he in turn writes cheques, which carry some of the figures to the producer of the commodities. These cheques are then cleared, and, as soon as the clerking has been done, the second man writes cheques in exchange for the commodities he wants. These cheques carry a supply of purchasing-power to the producers of those commodities, and these men in their turn write cheques, which are cleared in the same way. And so the unending process of commodity-exchange continues. In every case the cheques can be destroyed as soon as they have carried the figures from one page in the ledger to another page; the number of cheques is only limited by the amount of purchasing-power men wish to exchange for commodities. No form of currency could possibly be more simple or more convenient.

For the issue and administration of this currency the only requirements are a supply of

- (1) printing-presses to print cheque books (potential currency);
- (2) books and files in which the figures can be entered;
- (3) machines to conduct the additions and subtractions;
- (4) clerks and overseers to supervise and supplement the machines;
- (5) safe, strong, conveniently placed, and, to avoid giving offence to cultured men, beautiful buildings in which the books and files can be stored and the clerks interviewed.

So far as the issue and administration of a cheque-currency is concerned, we need nothing else than this. Books, files, adding machines, clerks, supervisors and buildings: that is all.

There is no reason why, if we wish, the buildings should not be called "banks"; and for the sake of simplicity I will use the word; but we must not assume that there would be conducted in these banks any other business than what I have described. Nor would there be, for instance, five large banks and a few small ones, as we have. When I speak in future of a "bank" I shall mean the building, not the organization that owns the building.

There would obviously have to be some organization to control the activities inside the multitude of banks the people would need; but I do not wish to discuss that yet. At the same time it is worth noting that if and when the institutions we use now are changed, there would be no disturbance of the clerks in our deposit-banks. Nor would there be much outward difference in the work done by these clerks. The buildings we call banks, the men we call bank clerks, the ledgers and adding machines in our banks: all these would be required; and the duties of the clerks would be almost the same as they are now. They would keep accounts and issue potential cheque-currency.

The men we call bank shareholders and all others who play no definite part in the administration of our banks would not be required.

Perhaps the greatest difference between such banks and our present banks is that the former would not conduct a deposit-banking business. The men in the banks would issue the potential cheque-currency and administer the circulating currency. Their performance of the latter task means that they would keep a record of the purchasing-power possessed by each person or persons.

* * * *

In Chapter III we saw that when a cheque-currency is used, money is only a penstroke. We must now discuss how, where, when and by whom the penstroke should be made.

There is no difficulty about the "how": in a cheque-using society

the act of issuing money is simple. The amount of potential money, like the amount of potential currency, may be said to be unlimited. What we have to discover is where, on whose authority, and when the pens should bring money into existence, and transfer purchasing-power from one person to another.

The "where" is plain : the ledgers kept by the bank-clerks are the only possible places.

On whose authority? We cannot decide yet.

When? We will study this question first.

But it will be helpful, I think, if we first call to mind the conditions that a money-system must fulfil.

It is the custom among monetary reformers to say that the amount of available money should accord with the economic needs of a society. By this they mean that enough money should always be available for the exchange of such commodities as the people wish to exchange.

We may safely accept the condition, for any other state of affairs would be foolish. Money is only a device invented for the convenience of men, and it is plainly silly if in the exchange of their commodities they are handicapped by the state of the money supply.

But let us realize this : we have no idea how many commodities there will be to exchange at any time, so we cannot say how much money will be wanted. All we know is that the supply of it must never be less than the need.

The converse is also true : the amount of available money must never exceed the need ; for, if it did so, there would be more purchasing-power than would be warranted by the state of the production-and-exchange process. Then, according to the quantitative theory of money, the general price-level would rise, which is contrary to the interests of society. When the general price-level rises or falls there is a great deal of uncertainty, distress and alarm which reduces both the quantity and quality of a society's energy. The money-system, therefore, must be such as to avoid any possibility of the money-supply exceeding the needs of the people.

That is the second condition the system must fulfil. And let us bear in mind that the commodity-exchange process is not a static but a dynamic thing. It is never the same for long, and we cannot tell when or by how much it is going to increase or decrease. Moreover, the rate of any increase or decrease, as well as its precise extent, is always likely to be irregular. To these changes the money-system must adjust itself immediately. Whatever the increase or decrease in commodity-production and commodity-exchange, the amount of money in existence must always be equal to and never exceed economic needs.

A third condition must be fulfilled. So far as my knowledge goes, this condition has never been laid down by reformers; but it is vital to the success of an economic system devised in accordance with the use of a cheque-currency.

We have seen that in the nature of things the amount of a man's purchasing-power is a reflection of the exchange-value of the commodities he has produced or helped to produce. Now if the exchange-value of those commodities is reduced, or if the commodities become useless or get worn-out, then in the nature of things, the purchasing-power of their possessor lessens or disappears. The money-system, therefore, must be designed in such a way that, when the exchange-value of a commodity is reduced or disappears, the money that expresses its value must be reduced in amount or cancelled.

There is nothing remarkable about this; any other state of affairs would plainly be foolish. For if the purchasing-power did not become less or disappear the commodity-exchange process would be embarrassed in the same way as it would if the total amount of money in existence exceeded the total amount of commodities in existence. Indeed, if this third condition were not fulfilled, there would be only one way to avoid the embarrassment, namely, the society would have to regard the worn-out commodities as having the same exchange-value as they had when they were new.

This would have three main results. First, the people would have to tolerate the continued use of the worn-out commodities however much they wanted to replace them. Secondly, the men who might be replacing the worn-out commodities would be compulsorily idle. Thirdly, a number of men would possess an amount of purchasing-power which did not represent exchange-value; thus the society would be compelled to carry a number of parasites whose purchasing-power would be wholly or partly fictitious and who could purchase without producing.

In our society all these things happen, but this only points the urgency of devising a system whereby such a situation may be obviated. The fulfilment of this third condition is as important as the fulfilment of the other two conditions.

* * * *

Before we proceed further it will be necessary to examine a fourth method of commodity-exchange.

We return to the consideration of our simple society. There are five economic groups in it. Group A produces corn; group B potatoes, and later, machines; and group C woven cloth. Group D looks after the goats that yield milk and flesh; group E consists of builders, car-

penters, thatchers, etc. We are trying to discover a way in which, if the society's energy increased, the additional commodities it produced could be exchanged without handicapping or embarrassing the display of that energy. For this purpose we are supposing that group D have had a good breeding season and that group B begins to produce, besides potatoes, some new machines, such as ploughs and looms. To simplify the discussion I speak in terms of individuals, A, B, C, D and E. So long as we remember that these individuals represent groups, there is no danger in this.

We assume a state in which commodities are directly exchanged, each one for every other one, separately. What we have to decide is the best way in which A and C can get possession of the new plough and loom which B has made, "best" being interpreted *solely* from the standpoint of a society that wishes to display great energy.

We have already considered three possible ways in which the business might be done; none has been found suitable. We have always approached the question from the standpoint of the purchaser. Except among manufacturers of a few commodities produced for consumption, like motor cars, wireless sets, encyclopædias, refrigerators, cheap furniture, etc., this is the usual practice in our society. When a municipality wants a new bridge, or a steel manufacturer a new furnace, or a railway company a new station, each asks "How can we purchase it?" And this way of thinking runs the risk of making us forget the relation between buying and selling. Except when some persons are permitted to have purchasing-power without either producing a commodity or performing a cultural service, buying and selling are not separate affairs but two aspects of the same affair. When a commodity is sold it is actually exchanged for something purchased in the future. Reason cannot justify our habit of considering a transaction almost exclusively from the standpoint of the purchaser; the seller's point of view is equally important. Let us, then, consider it now. The question is no longer how A shall purchase the plough or C the loom but how B shall sell them.

Since we have discarded as unsuitable the three methods of commodity-exchange we have already discussed, B's position is that A cannot give him at once the full exchange-value of the plough; nor can A consent to economize at home in order to collect its price; to borrow is also out of the question for him. This applies to C also. B realizes what the situation is and acts accordingly.

His aim, we must remember, is not only to sell his first machines but also to put himself in such a position that he can continue to produce and to sell machines. He himself thinks that A is a person of integrity,

and he asks D and E if they think so too. On receiving a favourable answer, he concludes that if A makes a promise he will keep it. So will his son (A₂). On this assumption B bases his offer.

Having come to an agreement with A in regard to the exchange-value of the plough in terms of corn, B offers to deliver it to A on the understanding that A sends him each year an annual supply of corn. The amount of each payment is to depend on the estimated life of the plough; say, for the sake of simplicity, twenty years, each year A having to send B a twentieth part of its value. Thus, if the plough is estimated to be worth one hundred goats, A must send B each year a supply of corn equal in value to five goats. The payments are to be continued until A has paid the full amount of the sum due for the plough. If A dies, A₂ is to inherit the liability; if B dies, the payments are to be made to his son, B₂.

B adds that his offer is made subject to an arrangement whereby A, as soon as he has completed the purchase of the first plough, will consent to discard it and take delivery of another new one. B is willing to guarantee that the second plough shall be in no way inferior to the first one. He insists, indeed, that it will be a superior one.

A thinks the matter over and eventually accepts. A similar arrangement is made with C, who takes delivery of the loom in return for annual payments of woven cloth. He also agrees that, as soon as the loom has been paid for, it shall be smashed up and a new one delivered in its place, to be paid for in the same way.

It must not be thought that it is wasteful to smash up worn-out ploughs and looms. There seems to be no shortage of raw material in this world, and it is stupid for energetic men to work with inferior machines when more efficient ones are available. An energetic society is always discovering new ways of doing things; if old machines are not discarded when they are worn out a severe handicap is imposed on the energy displayed by inventors, designers and engineers. Arrangements for the destruction of worn-out machinery is a vital part of any economic system designed for the needs of energetic men.

This being understood, let us examine each man's position, under this fourth method of commodity-exchange.

As soon as A has taken delivery of the plough the amount of his harvest increases. In his home there is a complete absence of the strain induced by the second method we discussed. There is no enforced economy and none of that dourness that comes from the repression of a natural desire and from an effort to pinch and save. There is no need for him to deprive his wife and children of food and clothes that he may "save." Indeed, the family have more corn and clothes than

they have had before; the corn required for the purchase of the plough is easily secured by its use, and there is a surplus after that. This surplus can either be consumed or exchanged with C for woven cloth.

For as soon as C has received the new loom his output also increases. He also has no difficulty in producing enough to pay the annual amount of cloth due for the loom; he even has a surplus after that. This surplus can either be consumed by his family or exchanged with A for corn. The result is that the families of both A and C have more corn and clothes than they had before. They also have a larger supply of milk and flesh.

According to the situation we are supposing to exist D has increased his production of goats. Under the third method of commodity-exchange the extra goats were not consumed; for D found another use for them and allowed them to accumulate. Under the fourth method his other use does not exist. So D exchanges the goats in the normal way for some of the surplus corn and cloth that A and C now produce. The result is not only that the families of A and C have more milk and flesh but also that D's family have more corn and clothes than they had before. And this increase in the common wealth is to be expected; for the total amount of commodity-production and commodity-exchange has increased, and the nature of things is that when this happens the total amount of consumption increases too.

The increase of commodity-production also occurred under the third method; the difference between the third method and this method, so far as the first generation is concerned, consists in the way the extra commodities, having been produced, are distributed. For this difference in distribution the method of commodity-exchange is alone responsible.

Under the third method D's extra goats were not circulated as commodities; so the amount of milk and flesh available for purchase by A and C was less than it is under the fourth method. Under the third method some of the extra corn and cloth produced by A and C was sent to D in exchange for the risk he ran when he made the loans. Under this method loans are unnecessary; so D does not obtain any extra corn or cloth unless he gives some commodity in exchange for them. This is what puts his extra goats into circulation. Under the third method A sent a large part of his surplus to D and kept the rest for his own use; under the fourth method he only sends a small part of his produce to B. The rest is available for his own use. The same applies to C, and we cannot help noting that this is an argument in favour of the fourth method; for the greater a man's share in his own productions the more he is likely to go on producing. Moreover,

neither A nor C is under the necessity of sending an annual supply of commodities to a man in exchange for nothing but a loan.

It is probable, I think, that under these happy circumstances both A and C would yield to the pressure put on them by E and order a new house each ; these houses, we will suppose, are supplied on the same terms as the plough and the loom. But after the houses have been built the position of the purchasers is different. A house is not a productive commodity like a plough or a loom ; it is for consumption only ; so the building of the houses does not produce a further increase in the total amount of corn, cloth, milk, flesh, etc. in circulation. When A and C have taken delivery of their houses, part of the surplus they themselves have been enjoying has to be sent to E in payment of the houses. The interesting thing is that under this method these payments do not place any strain on A and C.

This is another point in which the method proves itself to be superior to the third method. The life of a house is longer than that of a plough or a loom, and all that A and C have to do is to send E an annual supply of commodities equal in value to the value of the houses divided by the number of years the houses are estimated to last, say one hundred years. This means that each one of them has to pay E each year one per cent of his house's value. And the arrangement is that, when the houses have been paid for, they are to be pulled down and new ones erected in their place.

Compare the situation now with that created by the third method of commodity-exchange. B's net income, we should notice, is the same under both methods. The only difference is that, whereas under the third method he received payments from D in return for a deposit of goats, under the fourth method he receives the same payments from A and C in gradual payment for a commodity he has delivered to them. Under the fourth method of exchange A, C and D are the men whose position is different.

For the sake of simplicity we are supposing that the plough, the loom and the house have the same exchange-value, which we express in terms of goats, say one hundred goats. The plough and the loom are estimated to have a twenty year life, the house a one hundred year life. Under the third method D received the equivalent of twenty goats a year for facilitating the purchase of the plough ; so A's family could not have a new house in A's lifetime. But they can do so under the fourth method, because, to purchase the plough, A has only to send B the equivalent of five goats a year. When A purchases the house from E he has to send E the equivalent of one goat a year, and, besides having a new house, he also has a greater net income than he had before he bought the plough.

It is the same with C. He too has a greater net income than he had before; he also has a new house; and a further argument in favour of this fourth method of exchange is that it encourages a display of human energy by making it possible for new houses to be built at a greater rate. It also makes sure that worn-out houses are pulled down and replaced as soon as they have existed for the period of their estimated life. It is obvious how this is connected with the question of slums.

D's position is very satisfactory. Before the plough and the loom were made he had a surplus of goats, which were of little use to him, for there was nothing except a new house for which he could exchange them. They could have been put into circulation by reducing the exchange-value of goats in terms of corn and cloth; but this would have meant that D had no benefit. The appearance of the plough and the loom enables D to keep the exchange-value of goats at the same level and to exchange some of his surplus for some of the surplus produced by A and C. He is thus able to give his family more bread to eat and clothes to wear, and there is no reason why he should not have a new house too. He can easily afford to pay one goat a year for it, even though he exchanges many goats for corn and cloth. He might even pay more each year than one goat. If he wishes to do so and E agrees, his house might become a fifty year house instead of a one hundred year one; in which case he would pay two goats a year for it for fifty years. At the end of fifty years the house would be pulled down and replaced by another one.

It certainly seems as if this fourth method of commodity-exchange is the most suitable one we have yet found. Unfortunately there are some objections to it.

In comparing the various methods we are discussing, it is important that we should suppose each person's mind to work in the same manner under the same conditions. When we discussed the third method we came to the conclusion that when B had sold both his plough and his loom he wanted to give up growing potatoes in order to devote himself exclusively to the production of machinery. We shall be unreasonable if we suppose that he behaves in any other way if his commodities are exchanged in the fourth way. His financial position is the same under both methods, and we must conclude, I think, that when he has sold his plough and his loom he lets A's younger son take over his land in return for an annual payment of potatoes. B thus secures a supply of commodities for which he gives no commodities in exchange.

Now one of the reasons why we discarded the third method was that this situation arose. It seems, then, as if we ought to discard the fourth

method for the same reason. Before we do that, there is a point to be considered. Between a rent paid for the use of land and interest paid for the use of commodities there is a fundamental difference.

At first sight, except for this unearned increment which finds its way to B, the fourth method seems to fulfil most of our requirements. It imposes no handicap on the production-and-exchange process; there does not come into existence any group of persons who receive a supply of purchasing-power in return for a mere loan of commodities which do not leave their possession; producers are not split into two opposing groups, employers and employed. Moreover, there does not arise any of the complicated loan-interest-deposit-business that the third method produces. Still, there are other objections to it besides the one I have mentioned.

When A takes delivery of the plough, to whom does the plough belong? Under the third method A became its owner at once, but under the fourth method the situation is far from clear. Suppose that A has died and that all the members of his family have died before A has paid for the plough; who owns the plough? It is no good to any one else; B does not want it back; yet it is still his in the sense that he has not received its full exchange-value. Suppose that after A is dead another man takes over the land; does the plough belong to this second man? Is he liable to B for the remaining payments A was due to make? There seems to be room for much confusion here. The fourth method enables B to go on producing new machines; it avoids the creation of human parasites. These are great advantages, but we cannot design a system on a basis that leaves us in doubt about the identity of those that own the means of production.

There is another objection to the fourth method. This objection has a different nature, but, if we remember the fundamental character of every transaction, there is nothing complicated about it.

We rejected the third method of exchange because it had four results which conflicted with our purpose; but even if these results had not appeared we should still have had to discard it. When D lent the goats which A and C exchanged for the plough and the loom, the total amount of available purchasing-power was only increased by the extra amount of corn and cloth that A and C produced; there was no increase corresponding to the exchange-value of the plough and the loom. Each was exchanged for goats, and the only difference that the production made before the plough and the loom became productive was the prevention of a fall in the exchange-value of goats. After the goats had been lent to A and C and these men increased their production, there emerged a loan-interest-deposit-system.

We rejected the third method of exchange because this system emerged, but the unsuitability of the method was provable before that. In the story as I told it goats were used as a means whereby exchange-value of other commodities might be measured and compared; that is, goats performed the function of money. Even if we had not heard the story in full we could have condemned the third system out of hand because the supply of money did not keep pace with the requirements of the production-and-exchange process. When we discussed the question of money-issue we agreed that the supply of money must always be equal to and never exceed these requirements. An objection to the third method of exchange is that this did not happen. All that happened was that the goats, which were performing money's function, began to circulate in a different way; whereas, to suit our purpose, their number should have increased in accordance with the requirements of the commodity-exchange process.

The same objection applies to the fourth method of exchange. The plough and the loom change hands, but the total amount of purchasing-power is only increased, as it were, under the third method, by the extra corn and cloth produced by A and C. When he has produced and found a purchaser for his machines B is entitled to receive interest on it; but under the fourth method there is no such thing as loan-interest-deposit, and what we find is that, though B is as well off as he was under the third method, he is not so well off as in the nature of things he should be. And the reason is that the total amount of available purchasing-power does not increase, as it should, by the exchange-value of the plough and the loom. In other words, the society is short of money.

Incidentally, this explains why there is some doubt about the ownership of the machines. If B had received their full value when he delivered them he would have no claim on them. We see, therefore, that the first objection is really part of the second one. If we remove the second one we also remove the first, so far as B's claim on the machine is concerned.

The situation is not to be lightly regarded; it also exists in connexion with the houses E has built. These houses are commodities; when they have been built there should be an increase in the amount of available purchasing-power equal in value to their exchange-value; but it does not exist. All that exists is the new purchasing-power created by an increase in the production of corn and cloth. As the producer of the house, E is entitled to receive in return a supply of purchasing-power equal in value to the exchange-value of the houses. Under the fourth method as I have described it, he only receives each

year an annual supply of commodities equal in value to a small part of the houses' value. The fourth method of exchange is the only one we have yet discussed which does not conflict in some fundamental way with the display of human energy, but this objection must be removed, or we must reject the method as unsuitable.

The objection to the method is that B does not immediately receive all the money (purchasing-power) to which his production entitles him. This means that the society of which he is a member suffers, because the total amount of available purchasing-power is less than the requirements of the commodity-exchange process.

It is surprising to discover that the difficulty only exists because I have chosen to assume a system whereby commodities are directly exchanged. As soon as we speak in terms of cheque-currency, the difficulty disappears like snow before the sun.

We have seen that a cheque-using society requires, for the issue and administration of its cheque-currency, a supply of conveniently placed buildings which we have agreed to call "banks." In these buildings there are a quantity of books, files and adding machines, with the aid of which the clerks in the banks carry out the instructions written on the cheques. These instructions consist of an order to transfer certain figures from the ledger-page devoted to the person signing the cheque to that of the person in whose favour the cheque is drawn. These figures are money; they state and measure the exchange-value of what has been received. By derivation they also state and measure the purchasing-power due to the supplier. The function of the cheque is to act as the medium of exchange by carrying these figures from him that receives to him that supplies. When this has been done, the cheque, having done its work, can be destroyed. The figures remain, and signify by their presence that such-and-such an amount of purchasing-power is possessed by the person named.

Let us now suppose that the society of which I am speaking uses a cheque-currency. When A purchases some machinery from B, B receives a cheque which transfers to him the agreed amount of purchasing-power expressed in terms of money. The cheque is cleared by deducting the figures from A's account and adding them to B's account. In the case under consideration B, having decided that A is a person of integrity, has delivered some machinery to him on the understanding that (a) A pays B each year a sum equal to the exchange-value of the machinery divided by the length of its estimated life; (b) as soon as the machinery has been paid for A will discard it and take delivery of a new lot, to be paid for in the same way.

And now this is where organized society comes in. Organized society

is the network of social, political and economic groups formed by the members of the society ; the structure of the society is the way in which these groups are related to one another. The economic groups consist of the producers and distributors, who are also consumers ; the economic structure is the relation that exists between these groups. Under the authority of organized society they run the economic system, and, as soon as we speak in these terms, we see how simple it is for them to remove the difficulty we are up against.

The trustworthiness of the consumer is the foundation on which the fourth method of commodity-exchange must rest. If B can trust A to pay for some machinery over a period of twenty years, organized society can do the same. The only difference is that in that case organized society, not B, must be the judge of A's integrity. If in the opinion of organized society A is a trustworthy person, there is no reason why the money wherewith he can pay B in full should not be issued to him at once. If this happens B at once receives the full amount of purchasing-power to which he is entitled, and the total amount of available purchasing-power keeps pace with the requirements of the production-and-exchange process.

If we consider the matter calmly any other course of action would seem foolish. Money is a device invented by men for their convenience. When cheques are used as currency the supply of potential money is inexhaustible ; men can bring it into existence as they need it. The fundamental rule is that the amount of money available for circulation should be sufficient for, yet *never exceed*, the requirements of the commodity-exchange process. If B does not receive all his money at once this rule is broken. It is also broken if money is not specially issued when new commodities enter the commodity-exchange process. If, then, the society does not issue the money to A it is breaking one of the fundamental rules that govern the issues of money.

We would place in each bank, therefore, a manager, charged with the responsibility of issuing money. This man would require an intimate knowledge of the administrative work done in the bank ; he should also be skilled in the appraisement of human integrity. To assist him in the latter work we would give him the help of a few persons (advisory committee, if you will) chosen from the citizens in the district. These persons would take no responsibility for the decision at which the manager arrived ; they would merely give him advice when he asked for it. In the course of their daily lives they would be likely to meet and to have dealings with those who apply for an issue of money, and they would be helpful in appraising each applicant's integrity.

But when money is issued the integrity of the applicant is not the only thing about which a decision would have to be made. His ability as well as his will to make the promised payments would need to be assessed. A man can be trusty without being prudent, honest yet obtuse, industrious yet shortsighted; and I do not think a bank-manager, dealing with applications from many different groups of consumers, could be expected to have great enough knowledge to enable him to be the sole judge of a man's ability to pay as he promises. The manager would require, I think, to receive advice from a person who had experience of the conditions that prevailed in each trade. Only such a person could express an opinion about an applicant's ability to pay. I call this person the accountant; the responsibility for the issue of money, however, would rest on the bank-manager alone.

We will suppose that in the hypothetical case of A the answer to each question is favourable; the business would then proceed like this.

Under the instructions of the bank-manager a clerk would issue to A the money which he, A, would then pay to B. This would be done by making a few pen-strokes in a ledger. The figures would be added to B's total of such figures and debited to A's account in a special ledger. They would also be debited to a special Money Issue Account in another ledger. This means that the total debits would exceed the total credits, which would be the situation required. When the commodity went out of circulation, or ceased to exist, the debit in the Money Issue Account would have to be cancelled. While it remained, the debit would represent the value of the commodity.

As soon as the clerk had issued the money to A it would be credited to B, who would thus receive the full amount of purchasing-power to which he was entitled; he could proceed to draw cheques at once. A would have his new machinery and could put it into use without delay. The amount of additional purchasing-power in the society would equal the exchange-value of the new commodity produced and exchanged. Henceforth the matter would concern A and the bank only.

A's position would be that instead of giving B a cheque each year in part payment of the machinery, he would be debited with a similar amount in the bank ledger. This debit would consist in transferring some figures from A's current account to his account in the money-issue ledger. The money in his current account would arrive there when he sold the commodities he produced with the machinery. When his account in the money-issue ledger was credited with a payment the Money Issue Account would be credited with the same amount. This means that, as the exchange-value of the machinery was reduced each year by its use, the money representing its exchange-value would also

grow less. At the end of twenty years A would have completed his payments. His account in the money-issue ledger would be square; the Money Issue Account, so far as that transaction is concerned, would balance. A would then discard the machinery and take delivery of a new lot, to be paid for in the same way.

This system could be adopted also in the case of other commodities. The number of transactions could be multiplied to any extent; the transaction could be of any size. These things would make no difference to the way in which things would work. The objections we had to the fourth method of exchange could not arise.

From whatever point of view we regard it, this fourth method passes muster. It would assist the process of commodity-production and commodity-exchange; place no handicap on a display of human energy; enable all producers to own their means of production; avoid the process of loan-interest-deposit that creates a group of parasites who obtain purchasing-power without displaying energy. No other method would fulfil all these conditions. Stated in terms of cheque-currency no objection can be found to it.

* * * *

It will have been noticed that, in discussing this fourth method commodity-exchange, I have often stated that at the expiry of the time allowed for payment, that is, the estimated lifetime of the commodity, it should be destroyed and a new one purchased. To fulfil conditions that are necessary in an energetic society, every contract would include a clause whereby the members of any producing group would engage themselves to discard their machinery as soon as they had completed its purchase. The same provision would be made when any building was erected: unless historical or æsthetic considerations intervened, a building would have to be pulled down, and another one erected in its place, as soon as it had been paid for. In this way no group of producers would ever be compelled to be idle; no handicap would be placed on a display of human energy. Moreover, the machinery in use would always be of the latest design; so would the buildings.

The condition that groups A and C should take delivery of some new machinery as soon as the old machinery had been paid for was laid down by group B because the latter did not wish to be handicapped in their production of machinery; which they would have been if the other groups had been able to go on using (for the sake, perhaps, of great profit) their old machinery. But the condition has a universal application and, under this method of commodity-exchange, would be imposed whether the commodity being exchanged were a

bridge, furnace, crane, town hall, or railway station. And here we discover another argument in favour of the method. In an extremely energetic society, æsthetic values change. Subsequent generations have different values from those of the previous generations, and two or three generations after, say, a bridge has been built, men get tired of it and want to build another one.

In an energetic society the smashing up of old, worn-out, unsatisfactory commodities is a cultural necessity, and it is vital that the economic system should be such as to allow their replacement. One great advantage of the fourth method of commodity-exchange would be that it enabled this to be done without embarrassment. Were the method to be adopted, old bridges, machinery, town halls, furnaces, railway stations, and all other commodities could be pulled down as soon as they had existed for the time they were originally estimated to last. I know of no other method of exchange of which this could be said.

This method of commodity-exchange shows the following advantage over the third method we considered, that is, our present economic system :

- (i) no handicap would be placed on commodity-production ;
- (ii) producers would continue to own the means whereby they produce their commodities ;
- (iii) it would not create a group of parasites who obtain a supply of commodities without themselves displaying energy ;
- (iv) it would abolish the use, which seems almost unavoidable when other methods of exchange are employed, of worn-out commodities of old design and manufacture.

* * * *

When we discussed the issue of money we decided that a money-system must fulfil three conditions. If we examine the system I have described we find that these conditions are fulfilled.

(i) The first condition was that the amount of money available for circulation must never exceed the amount demanded by the state of the production-and-exchange process, although no man knows what the state of the process will be this year or next year or at any time.

This condition is fulfilled by the fact that money would only be issued to the consumers of commodities that have been judged to be trusty and able to repay the money as they promise. It does not matter how much money they require ; the supply is inexhaustible. The amount available for circulation can never exceed requirements because the money would not be issued till a commodity had been produced and a trusty purchaser found for it.

(2) The second condition was that the amount of money available for circulation must never be less than will meet the requirements of the commodity-exchange process, although no one ever knows what the requirements will be in the future.

This condition is fulfilled by the fact that money to the value of the commodity would be issued as soon as the producer had found a trusty purchaser. Till he had done so his production would not become part of the commodity-exchange process. It would not even be a commodity; for no object becomes a commodity till another man, or another group of men, has consented to give something in exchange for it. As soon as the object entered the commodity-exchange process the necessary money would be issued, provided that the purchasers were judged to be capable of repaying it on the agreed terms and to be of such a character that their word could be trusted.

It does not matter how few or how many commodities are produced and purchased; the supply of money would never be less than the exchange-process required.

(3) The third condition was that no amount of purchasing-power (money) must be allowed to remain in existence after the commodities, whose exchange-value it reflects, have gone out of existence. The amount of purchasing-power must also be reduced as the exchange-value of the commodity grows less.

This condition is fulfilled by the fact that, after the money had been issued, its amount would be reduced each year by the estimated fall in the exchange-value of the commodity. If the commodity were estimated to last twenty years the money issued to facilitate its exchange would automatically be reduced to half after ten years, to a quarter after fifteen years, and would disappear after twenty years. So far as that transaction is concerned no more purchasing-power would remain in existence.

We can now answer the questions contained in an earlier section of this chapter. The questions were "When and on whose authority should a producer receive the purchasing-power to which his productions entitle him?" The answer is that the bank-manager should have power to give it to him as soon as he had found a trusty customer for his commodity, "trusty" denoting both the ability and the will to pay in future the amount due for the commodity.

Chapter VII

APPLICATION OF THE FOURTH METHOD

IN our minor transactions we use the first and second methods of commodity-exchange, but our economic system is based on the third method.

Under the fourth method of commodity-exchange a consumer would not be compelled to produce the money at once; organized society would issue to him as soon as he had satisfied the appropriate authority that he could and would produce it in future. The consumer might be an individual person or a group of persons; a group might consist of any number of persons, united by any bond; these persons might execute any number of transactions of any kind or magnitude. These things would not affect the nature of the contract. If this method were adopted the display of human energy would not depend on the pleasure or profit of those who had money or of those who controlled money. The economic system would automatically adjust itself to any state the production-and-exchange process happened to be in; all producers would remain their own masters.

Doubtless some persons will hardly credit a method of commodity-exchange with having much influence; they may even be incapable, or at any rate reluctant, to think that we could exchange our commodities in any other way than the one we now use. In this they are mistaken; but I confess they have some reason for their error. Our politicians and reformers have a habit of ascribing to this or that *-ism* the full responsibility for the conditions they praise or deplore; the result is that many persons have come to the conclusion that each *-ism* is a definite force that works in the economic world. In the minds of these uninstructed people there is a vague conviction that if all is not well, this or that *-ism* will put it right. But what "right" means in that context and what in practice the *-ism* denotes is usually far from clear. It certainly does not include any alternative to such an unexciting thing as a method of exchanging commodities, which, not being an *-ism*, has no attention paid to it.

We have seen that within a society, human beings naturally sort themselves into groups of various kinds, and we may suppose that there would exist a number of economic groups, the members of which

would be held together by their interests. I call these economic groups *gilds*.

When production involved a number of men they would be formed into a gild and the gild would own the means of production. It does not matter what is being produced—units of electricity, boots, cloth, churches, films, flour, bread—anything. Those that produce would own the means of production. Those who did not wish to produce a commodity, or to merchant commodities, or join a social or economic profession would become wage-earners and assist the men who did any of these things. But whatever a man did, he would be a member of a gild, and the gild would be responsible for him so long as he acted within the bracket of its rules.

In the following pages I will outline briefly some of the ways in which the adoption of the fourth method of commodity-exchange would influence our industries and services.

The men who produce a newspaper are those who write it and those who print it. In a society whose economic system accorded with the use of the fourth method of commodity-exchange, these men would be members of a Journalists' Gild and a Printers' Gild respectively. Normally the Printers' Gild would own all the commodities used in printing; but the machinery used for printing newspapers differs in many ways from that used for other forms of printing; so that journalists would own, or at any rate control, the commodities that help them to produce their commodity.

The commodities required to produce the newspapers would be made by the appropriate gilds. When the Journalists' Gild or any of its sub-gilds wanted, for example, a new printing machine they would not be required to pay cash for it; the purchasing-power to be given in exchange for it would be issued to them by the Bankers' Gild, provided that the journalists were judged (a) to be trusty men who would keep their word in the matter of future payments, (b) to be capable of repaying the money on the agreed terms. To every transaction there would be attached a condition that, as soon as any printing machine or other such commodity has been paid for, it will be discarded and another one purchased to take its place.

Under these circumstances journalists would plainly be free to produce their commodity in the way that seemed best to them. The nature of their outlook on current affairs would be the only factor to control the character of their paper, always assuming that a certain number of their fellow-citizens were sufficiently interested in that outlook to purchase the paper.

In our society things are different. Owing to our acceptance of the

fundamental fallacy our journalists are unable to obtain delivery of a new printing machine unless they can pay cash for it out of an existing supply. If they themselves do not possess the necessary purchasing-power they must hire it from the persons who have it. The result is that our newspapers are not owned by the men who produce them but by the persons who pay for the means of production. The men who published our first newspapers were persons of strong convictions who themselves edited their publications; a few such newspapers still exist. But nearly all our newspapers are now controlled by those who possess or control the purchasing-power exchanged for the means of production. Journalists are the paid servants of these persons; and the result is that they are not free to produce their commodity as seems best to them; they are controlled by those who paid for the means whereby the commodity is produced. The sole qualification these persons seem to have is their erstwhile possession of money.

* * * *

We will take next the question of buildings.

This is a large subject; and let me say again that I am not discussing the land on which a building stands, or the raw material of which it is made, but the way in which the consumers of a building come into possession of it. I consider five different kinds of buildings: research laboratories; cathedrals and churches; village halls; hotels, inns and taverns; houses and flats.

The extent to which the members of any society control the external world depends on the amount of energy they display. Before men can exert any appreciable control over the material and biological processes they must obtain a knowledge of the way in which the events in these processes behave. In an energetic society such research is of paramount importance. When an ordinary citizen uses a wireless set or sees a neon tube he is apt to think that these things owe their existence to the energy of wireless-set manufacturers and electricians; but the truth is that the manufacturers and electricians are merely applying to their raw material the knowledge gained by research workers.

Here again diversity and decentralization, not uniformity and centralization, would have to be the rule. It would be preferable to have twenty independent research workers in twenty laboratories than forty in one laboratory under a unified control. We cannot yet decide how these workers would receive the monetary equivalent of the energy they display, but we can understand how they would obtain their equipment. Whatever its nature it would come to them direct from the gild that made it; as soon as it had been completed and delivered

the Bankers' Gild would issue money for it. Each year the gild for which the research students were working would repay an agreed amount of the cost; the scale of payments would be arranged according to the estimated life of the equipment. When the equipment had existed for the length of its estimated life, it would have been paid for, and, so far as that transaction was concerned, the money-issue accounts would balance. The equipment, whatever its nature, would then be broken up; a new lot, probably of a different nature, would be delivered.

In our society, owing to our acceptance of the fundamental fallacy, research workers are greatly hampered by a lack of suitable equipment. According to our method of commodity-exchange if the equipment for research is not obtained from a philanthropist it is only to be secured from the taxpayer. The central government, like a feudal lord, levies a tax and hands over a part of the proceeds to an *ad hoc* body. But from the standpoint of an energetic society it is unsatisfactory that research funds, which limit the amount of research that is done, should be controlled by philanthropists or by politicians. Only scientists understand in what direction research should be encouraged; most "practical" men have scant sympathy with the notions and aims of the research student. To give the final decision about scientific research to a body of "practical" men is to hamper research by ensuring support for such research only as "practical" men feel they can approve. Besides, if research is controlled by a government, the organization is pyramidal in shape and bureaucratic in character; in that atmosphere a research student finds it hard to exist. The result of our method of commodity-exchange is not only to limit the amount of research and to subject research workers to the whim of rich men, but also to give them the status of servants to a bureaucratic master. True, the latter is not the case in our universities, whose organization is neither pyramidal nor bureaucratic. But our universities are not allowed to spend much of the taxpayers' money on research, and such grants are only obtained in small amounts and with difficulty. To provide their research students with equipment our universities rely for the most part on philanthropists.

Among us, research into the nature of such diseases as cancer, tuberculosis and psychosis depends almost entirely on the whim of philanthropists. Agricultural and horticultural research is almost non-existent; yet there is every reason to believe that such research would increase the yield of our acres. And for the lack of it our method of commodity-exchange is responsible in so far as, according to our ideas, the money required to purchase buildings and equipment must be obtained out of an existing supply.

Every society with a strong religious stratum requires a supply of buildings in which its members can maintain, in a manner they think proper, a right relation with their god or gods. We may say, then, that in our society the number of persons who want cathedrals and churches is great; if they could get what they want, many cathedrals and churches would be built. It is our acceptance of the fundamental fallacy that prevents their wants from being satisfied.

How many shires have cathedrals that accurately reflect either the desires of the inhabitants or the powers of our architects and craftsmen? How many cathedrals would have been built during the last fifteen years had not a shortage of money been alleged to exist? How many parishes have to tolerate the use of inadequate buildings because, it is said, they cannot "afford" new ones? During the last ten years many new townships have been created, but there has been much difficulty in obtaining churches, though there appears to have been a sufficient number of persons who wanted these buildings and could pay for them if our method of commodity-exchange were different. Meanwhile, the men who might be building cathedrals and churches are compelled to be idle.

It is sometimes said that the age in which we live is a cathedral-building age. The truth is that in England three cathedrals have been built in the last thirty years; one of them is not yet finished (1936) for lack, we are told, of money. Work on two other cathedrals has just begun; but in both cases building cannot proceed apace, for lack, again it is said, of money. This does not appear to be a record of which any energetic society could be proud.

I am aware that, owing to the pressure that can be put upon them by influential persons, our deposit-bankers are often ready to advance, say, a quarter of the money required (according to our ideas) for the building of a church or cathedral; but this means that those who want cathedrals and churches must go hat in hand to the deposit-bankers—an action which is only necessary because, according to our method of commodity-exchange, a parish council, chapter, or provost, desiring a church or cathedral, must prove themselves, before the building can be completed, to be in possession of the money that expresses the building's exchange-value. *That* is the reason why persons who want cathedrals and churches cannot be satisfied.

In a society whose economic system accorded with the fourth method of commodity-exchange where the fundamental fallacy would not be accepted, a cathedral or church would be built when it was wanted, provided that its consumers satisfied the Gild of Bankers that they could and would pay for it in the stipulated time, say one

hundred years. The money expressing its exchange-value (and therefore the purchasing-power due to its producers) would be issued by the Bankers' Gild ; each year the parish council, chapter, or provost would repay one per cent of the building's value. After a hundred years had passed the building would have been paid for ; then, unless æsthetic or historical considerations intervened, it would be pulled down and replaced.

By virtue of his calling, a student of human affairs must regard village halls as important buildings. Human beings are gregarious creatures ; if we observe an uncivilized society we find that each village has an open space, where the villagers meet to gossip and to discuss the things that matter to them. If the society has enough energy, a building is erected in this open space. It is no accident that all our villages once had village greens ; such spaces served a deep human need. So do the buildings erected there.

Our villages were once starved for these buildings (which is one of the reasons for the existence of that cultural oddity, the parish hall) ; but in recent years the supply of village halls has received some attention from philanthropists, and many villages now possess halls paid for either by the local magnate or by such a body as the National Council of Social Service, administering charitable funds. The reason why the villagers have to rely on charity for the supply of a village hall is that we accept the fundamental fallacy ; this makes it almost impossible for them to secure the commodity in any other way.

In a society whose economic system accorded with the fourth method of commodity-exchange no village would have to depend on charity for the supply of such a vital commodity ; the inhabitants of each village would purchase their own hall. All they would have to do would be to convince the Bankers' Gild that they were trusty men who could and would make the payments they promised to make. The hall would then be built by the Builders' Gild and paid for gradually in the agreed number of years. When the villagers had completed their payments, the old hall would be pulled down and another erected in its place to be paid for in the same way.

The more mobile a population, the greater the influence exerted by the character of its hotels, inns and taverns.

In the seventeenth and eighteenth centuries these buildings, like most others, were owned by the lord, who was the only person to whom the innkeeper was finally responsible. Now nearly all our inns and hotels are owned by men who paid, or whose ancestors paid, for the cost of the buildings and equipment. Huge hotel-owning companies have been formed to purchase and erect hotels ; distilleries and breweries

have bought inns outright, hotel-keepers and inn-keepers are now the servants of these masters.

This arrangement, which is the inevitable result of our method of commodity-exchange, greatly affects the way our hotels and inns are run. Instead of performing a service for their fellowmen and receiving a supply of money in exchange, our hotel-keepers and inn-keepers are compelled to consider their masters first. Some of them still impress upon their hotels the mark of their own personality, but in the conduct of their business the overriding factor is what suits the owners, who receive a share of the hotel's income in return for the mere fact of their ownership; and the hotel or inn has to be run in such a way as to increase this share to the greatest possible extent. This accounts for the indifferent nature of the buildings we use as hotels and inns and for the shabby furniture in them. The equipment of the hotel or inn is kept in use long after it has been worn out, for the amount of money paid annually to the owners prevents its replacement.

In a society whose economic system accorded with the fourth method of commodity-exchange the men who kept hotels, inns and taverns would be members of their own gilds and sub-gilds; each member of the gilds would be an independent citizen. He would need no "capital"; for if he were judged to be trusty and capable he would receive what he wanted in the manner I have described. He would have no master as we understand the word; he would pay nothing to any owner; he would not have to sell this wine or that beer because his master ordered him to do so. Each hotel and inn would be a separate unit, organized, equipped and managed according to the wishes of the man who ran it, who would also be the man who owned it. He would play his due part in the life of the district in which he lived; his hotel or inn would exist for the convenience of its guests and the welfare of its proprietor.

It would be the same with the taverns, by which I understand a building in which men can obtain refreshment but no lodging.

The supply of houses and flats in our society falls so short of the demand that successive governments have had to pass special legislation in an attempt to fulfil the need. I do not comment on the tenor of this legislation. My point is that, though millions of human dwellings are wanted, few are built, because, it is alleged, the money is not "there." It is only this aspect of the matter that I am referring to now.¹

¹ According to W. J. Ashley, *An Introduction to English Economic History and Economic Theory*, the decay of English towns in the later fifteenth and early sixteenth centuries was not due to a decay in aggregate income but to lack of money wherewith to pay for new buildings. The fundamental fallacy is not a

On my desk there lies a large number of pamphlets issued by such organizations as the Church Army Housing Society, Ltd., Garden Cities and Town Planning Association, St. Pancras House Improvement Society, Ltd., Willesden Housing Society, Ltd., Lambeth Housing, Ltd., St. Michael's Penzance House Improvement Society, and many others. These societies, half-charitable, half-commercial, ask for gifts or loans at a small rate of interest in order to build houses that are badly needed. The reason why the money is wanted is that, according to our method of commodity-exchange, a house cannot be built till its would-be consumer has collected out of an existing supply the money to give in exchange for it.

These societies are only a few of a large number which have recently come into existence. Reading the pamphlets, it is hard to believe that such conditions should prevail in the land of one of the most energetic societies that has ever existed. This alone shows how greatly the method in which men exchange their commodities affects the details of their private lives.

In a society adopting the fourth method of commodity-exchange any man or group of men would be able to take delivery of any building of any size or kind, provided that the Bankers' Gild were satisfied that the building would be paid for in the future on the agreed terms. Money would not be required before a house or flat could be built; it would merely be necessary for the consumers of the buildings to produce, over a period of years, a certain quantity of commodities, the exchange-value of which, expressed in terms of money, would equal the exchange-value of the building.

If the consumers should not produce commodities, they would have to pay out of the money they received in return for the cultural services they performed. When a trusty man or a trusty group of men took delivery of a building the amount of money due to its producers would be divided by the number of years the building was estimated to last. If the would-be owners were judged to be capable of paying this amount each year the necessary money would be issued to them by the Bankers' Gild and gradually cancelled by their annual payments. A clause in the contract would state that, when the purchase had been completed, unless aesthetic or historical considerations intervened, the building would be pulled down and a new one erected in its place.

modern invention; it has scattered its effects throughout time and space. In 1931-2 no less than 51,253 building operations were compulsorily idle in London alone. (*South London Press*, October 14th, 1932.) Yet more houses were needed than even those 51,253 firms could have been producing. The reason for their idleness, and for that of the other men who might have been employed in the building trade was our method of commodity-exchange.

There would be no limit to the number of buildings that could be erected, provided these condition were fulfilled. The greater a transaction, the more purchasing-power is circulated, and the wealthier the society becomes.

The charitable societies I have mentioned may be putting a useful patch on a weak place in our economic system, but neither they nor anything like them should be needed. Nor should there be needed any such things as our Building Societies. These societies borrow purchasing-power from private citizens and from deposit-bankers and lend it to any person who wants to build or to buy a house. This is so profitable a business that some authorities, for instance the London County Council, have begun to undertake it.

To understand an economic system based on the fourth method of commodity-exchange, we must banish from our minds any idea of investment in houses or in anything else. Each man or group of men would own the building he lived in; the economic system would be such that private houses or flats would never and could never be owned by any one except the occupiers. It does not matter whether a landlord is a private citizen, a municipal authority, an insurance company, an investment company, a charitable trust, or any other group of men; landlords only exist among us because we exchange our commodities in a certain way. If we were to re-create our economic system so as to exclude the fundamental fallacy we should have no need of landlords.¹

During the last twenty years owing to the great demand for houses in our society, Parliament has had to give municipal authorities power to borrow money from private citizens in order to build them. I comment here neither on the subsidizing out of public funds of the rents charged to the tenants of these houses nor on the kind of houses that the municipal authorities have built. All I wish to say is that these municipal authorities only need money because we exchange our commodities in a certain way. Some strange results have ensued.

When money is borrowed interest has to be paid. Some local authorities have borrowed so much to build houses that they cannot borrow any more. The result is that houses, though urgently required, cannot be built. And the men who might be building them are compulsorily idle and therefore have no purchasing-power except the allowance they receive when they are out of work. This means that the commodities they would be purchasing if they were displaying their energy are not being produced, which means that other producers too are idle, and their purchasing-power also is reduced, and so on.

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¹ By "landlord" I mean the man or group of men owning a building. I am not speaking about the land on which the building stands.

Our method of commodity-exchange affects the quality of building. There is always a competition among builders to secure orders to build, and, since the money to pay for the building has to be borrowed and interest paid on it, there is a tendency for the price to be considered before the quality. Tenders are invited, and the most important item in the tender, or at any rate the item most discussed, is the price. Now it is humanly impossible to frame a contract to cover every detail of the building process. If goodwill does not exist between producer and consumer no amount of inspection and spying will prevent deception. Spies cannot watch every workman, inspect every piece of timber, check each weight, and vouch for the quality of every mixture of mortar. If a contractor, to get a contract, has to cut his price, there will always be a tendency for work to be skimped, for weight to be short, and for quality to fall. There is only one way in which the finest work can be done : producers themselves must refuse to be satisfied with anything but the best. Pride in good work well done is the only factor that will unfailingly produce high quality of workmanship. If price rules, this factor does not operate, and price rules among us because no building can be erected till the purchasers have procured the money to pay for it.

In a society adopting the fourth method of commodity-exchange, the overriding factor would be the display of human energy. The Builders' Gild would erect as many buildings as necessary. Payment would be made by the Bankers' Gild, who would issue the money to the consumers provided the latter were judged to be trusty men capable of paying in future in accordance with their undertakings. These future payments would be spread over the estimated life of the building. When a building had been paid for it would be pulled down and a new one erected in its place.

When municipal authorities build the cheapest possible buildings in order that they may not have to borrow more than the minimum amount of money, they affect the commodity-exchange process in another way. The result of their action is that, for example, when they build a new bridge they do not build the best but the cheapest bridge. This means that less purchasing-power is given to the men who produce the bridge, which again means that the producers of all commodities purchased by these men suffer. By erecting the cheapest bridge the municipal politicians reduce the total amount of commodity-exchange to a minimum.

If money is thought to be necessary before a house can be built those who have money begin to build houses as an investment. In the nineteenth century a man commonly put his savings into what he

called "a nice row of houses"; to-day many insurance companies and similar organizations do the same, though instead of "a nice row of houses" they erect a large block of "modern" flats. Regarding the buildings as a source of profit these owners do not have much consideration for their tenants beyond the minimum necessary to secure regular lettings.

In the areas where persons of low income-level live we are even compelled to appoint sanitary and other inspectors to whom a tenant can appeal when his house or flat gets so dilapidated as to be uninhabitable. Part of this is due to the fact that we do not pull down our old buildings when they are worn out; our economic system is such as to encourage their preservation. But much dilapidation exists because the money that might be spent on repairs is going into the pockets of the man who owns the building. Meanwhile those who might be keeping the buildings in a good state of repair are compulsorily idle. Our "luxury" trades flourish while painters and decorators and their labourers are unable to find work.

There was a time when landlords would rather go without their rent than let their property get into a bad state of repair. This is still the case among those who preserve the tradition created by the eighteenth century squirearchy. But in our large cities that tradition never existed; in other places it has disappeared; where it has not disappeared it is disappearing. Nowadays the rule is for the owner of a house to do the least he can for his tenants and to obtain as high a rent as he can. All this is due to our method of commodity-exchange.

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Among less energetic societies fishermen build their own boats; this used to be, and in some places still is, the case among us; but nowadays our fishermen have to fish in deeper waters and for this purpose need bigger boats. Our acceptance of the fundamental folly, however, prevents them from themselves purchasing the boats; the result is that they are no longer independent men; most of them are the servants of the persons who pay for the boats. This situation is directly produced by our method of commodity-exchange.

In a society adopting the fourth method of commodity-exchange, all fishermen would be, if they wished, their own masters. Every member of the Fishermen's Gild would receive any boat he wanted when he wanted it, provided that he satisfied the Bankers' Gild that he was a trusty man who could and would pay in future what was due for the boat. The boat would be made by the Boatbuilders' Gild; as soon as it had been delivered, the money expressing its exchange-value would be issued to the fisherman by the Bankers' Gild. He

would repay it, say, in twenty-five years. The Bankers' Gild would debit his current account each year with one twenty-fifth of the boat's exchange-value. This money would be credited to his money-issue account; also to the Money Issue Account. After twenty-five years the accounts would balance. Another boat would then be delivered and the old one broken up.

The money with which the fisherman repaid the Bankers' Gild would be obtained from the purchasing-power he received in exchange for his catch, the value of which would be his own. He would not have to share it with persons whose sole claim to a part of it rested on their ownership of the boat. Nor would any fisherman be compelled to use a boat that was worn out. These results are directly produced by the fourth method of commodity-exchange.

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The foundation of our inductive knowledge about electricity was laid by Gilbert at the end of the sixteenth century; Volta's work was done about two hundred years later. About a generation after Volta, Faraday discovered how to induce a current by revolving a conductor in a magnetic field; thenceforward, especially after the invention of the self-exciting dynamo, the discoveries were applied to human purposes. Yet even to-day (1936) there are many districts in Great Britain without a supply of electricity, though the inhabitants would like to have it if they could. The reason they have no supply is that we accept the fundamental fallacy.

According to our methods, to purchase the commodities they use in the production of electricity, our electricians have to obtain the necessary purchasing-power out of an existing supply. This means they must hire it; and since those who possess purchasing-power will not hire it out unless they feel sure that the fees for the hiring will be forthcoming, electricity was from the first only made available in places where many consumers obviously wanted it. For if there was some doubt about the number of consumers there was also some doubt about the producers of electricity being able to pay the fees charged for the hire of the purchasing-power.

During subsequent years some of the purchasing-power received in exchange for the electricity was kept in reserve for future contingencies and development; but a large part of it was distributed among the persons who had lent the original money. The claim of these persons to any share in the purchasing-power received in exchange for electricity was based on the fact that they had paid for the means of producing it; and these persons, being regarded as indispensable to the enterprise, soon began to dominate the industry. The result was

that all our electricians became the paid servants of persons who had money. Indeed, it is the same story over again. The interesting part is that our electricians have become so accustomed to being in this position that few of them can conceive of being in any other position.

A second result of our methods was that electricity when first produced did not become available in distant places. Since its producers had to hire the purchasing-power necessary to obtain the commodities required to produce electricity, they borrowed the least they could; and the shorter the distance the current had to be carried, the less purchasing-power had to be hired. Moreover, those who offered purchasing-power for hire were less keen to lend it if there seemed to be any doubt about their fees being earned. The result was the electricity was made available only in closely populated districts. Eventually Parliament had to intervene by forming an *ad hoc* Commission with authority to hire purchasing-power, the cost of hiring being guaranteed by the government.

Electricity was then distributed to every area, but the Electricity Commissioners, who had to pay the cost of hiring, hired the least amount of purchasing-power they could. This meant that when alternatives presented themselves they had to adopt the cheaper one. For instance, instead of burying the main cables, which is the safest, most efficient and most authentically satisfactory way, the Commissioners placed them on large steel pylons because it was cheaper so.

To control the supply of current from the main to the subsidiary cables, and thence to the actual consumers, various local companies were formed. These also had to hire the purchasing-power with which to obtain their buildings and equipment; they also wished to hire as little as possible; they too adopted the cheapest way. Thus instead of burying their wires they placed them on poles, from which wires were slung to the buildings that required the current.

But even then comparatively few persons were able to purchase a supply of current; for, to obtain a supply every consumer had to pay cash for the wires that carried the current from the meter to the place where heat and light were needed. In newly-erected buildings no supply of current could be installed unless the producers received at once the amount of purchasing-power due in exchange for the installation of the wires that carried the current. The result was that only well-to-do persons could have electricity; other persons, unless they occupied a newly-built house, had to go without it. And that is the position to-day. Even on their present income most persons could pay for the current they would use; what they cannot pay for is the cost of the commodities necessary to carry the current to the place where they want it.

Thus the result of our method of commodity-exchange has been to hand the control of the electrical industry to persons whose sole qualification is that they have or had money. All electricians are now their servants. It is difficult for any person, except in a large city, to obtain electricity; the number of persons who use it is almost the minimum. The ironical part of the matter is that the more electricity is consumed, the cheaper the cost per unit produced. Thus a further result of our method is to preserve the cost of electricity at a maximum.

Our methods also increase the cost in another way. The purchasing-power hired by the Electricity Commissioners is hired at a definite rate; but the fees payable for the hire of the purchasing-power used by the subsidiary companies are not so strictly governed. Usually higher rate has to be paid; and the hirers expect to receive a profit also. The result is that the companies have to place on a unit of electricity such an exchange-value as will give these persons a profit in addition to interest. This interest and profit is paid by the consumer. I hold no brief for cheapness, which is only a relative thing; my point is that in our society the purchasing-power that has to be given in exchange for a unit of electricity is great, and that it is only because we accept the fundamental fallacy that the Electricity Commissioners and supply companies have to hire purchasing-power at all.

In a society adopting the fourth method of commodity-exchange there would be no need for any such organizations. The Gild of Electricians would be responsible for the supply of all electricity; they would obtain their buildings and equipment in the same way as the journalists obtain a printing machine, a parish a church, or a fisherman a boat. They would also bury all their cables; for that is the safest and most suitable way and there would be no necessity to consider cheaper alternatives.

So much for domestically consumed electricity. But electricity is also used for industrial purposes; that is, as a means whereby other commodities are produced. To appreciate the effect produced by the fundamental fallacy on the use of electricity in industry, consider the production of steel.

No person, visiting a steel works, can fail to be impressed by the advantages of the electrical furnace; but our steel manufacturers do not install many electrical furnaces, because, they say, they cannot "afford" the high cost of the installation. In a society adopting the fourth method of commodity-exchange a Steelworkers' Gild would be able to receive any number of electrical furnaces when they wanted them. Payments for these commodities would be spread over a period equal to their estimated life, and the furnaces would be installed as

soon as the Bankers' Gild were satisfied in regard to the trustworthiness of the purchasers and their ability to make the promised payments. The contract under which new furnaces would be supplied would contain a clause to the effect that as soon as a furnace had been paid for it would be discarded, a new one delivered, to be paid for on the same terms.

If you look at our land from the cabin of an aeroplane you will see that it is peppered with pylons and black poles. These are there because we accept the fundamental folly. Our land is also studded with industrial chimneys. The age of steam has passed; yet these archaic instruments survive; the fundamental folly prevents their disappearance. The chimneys are required to take the smoke from large fires, which in their turn are required for the heat they give. But this heat could easily be obtained electrically, yet electrical current is not used because, we say, the money to pay for the installation is not "there." This applies to every industry needing heat to produce its commodities.

We should be wrong, however, if we ascribed to our method of commodity-exchange the full responsibility for the preservation of industrial chimneys. These are sometimes preserved, not because their owners do not wish to replace them, but because they are assets which, appearing in a balance sheet, make the sheet balance. If the chimneys were pulled down, value would disappear; the total of the assets would not then equal the total of the liabilities.

For this situation our method of commodity-exchange is not wholly responsible. True, the situation could not arise if we used the fourth method of commodity-exchange; under that method commodities used to produce other commodities would be automatically discarded and replaced. But even when the third method of exchange is used there is no *need* for worn-out commodities to be preserved. If industrial chimneys still appear on the asset side of a balance sheet it is either because too much money has been distributed in dividends or because the owners think they will make more profit by continuing to use the chimneys than by replacing their coal furnaces by electrical ones. We must always remember that the third method of commodity-exchange creates groups of shareholders who finally control the production of commodities. These shareholders are usually anxious to extract from an enterprise as much purchasing-power as they can. The human reason can find no argument against profit as a motive; but there is a difference between the profit of a producer and the profit of a shareholder.

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These illustrations would not serve their purpose if I did not draw

attention to the influence of our method of commodity-exchange upon the economic groups that do not produce commodities but perform economic services. Chief among these are the groups that transport persons and commodities from one place to another. I discuss merchant ships and railways. For the illustrations to be adequate I should have to discuss air-transport too ; but I am not persuaded that the lassitude of our society in this matter is altogether due to our method of commodity-exchange. True, the enterprise may not exist because the fundamental fallacy smothers it at birth ; but I am not convinced that this is so.

Owing to our acceptance of the fundamental folly, the masters and crews of our merchant ships are unable to purchase their own ships ; so they also are the paid servants of moneyed masters. When a merchantman is at sea the overriding factor in the way she runs is the financial interest of the persons that own her. Old ships are not always discarded when they are worn out. The owners often keep them in service, for the profit of their shareholders, to the danger of human life, and to the hurt of a seaman's pride. Shipyards that might be building ships to replace the old ones are closed (1936).

A continual increase in the size and speed of our merchant ships, due to our great energy and to the pressure put upon us by the size and speed of ships built by other societies, has made it necessary to collect larger and larger amounts of purchasing-power to give in exchange for them. The result is that a great part of our sea-transport is controlled by vast companies, interlocked by cross-ownership of shares. But even these terrific amalgamations find themselves unable to collect out of an existing supply enough money to pay for the ships they want. To such a pass has our method of commodity-exchange brought us that Parliament must be asked for help. When the *Queen Mary* was built her would-be owners were themselves unable to pay for her. Yet the material is there ; the men are there ; the energy is there. And what more, in the nature of things, is required ? The greatest sea-faring society known to history is being stultified by the way in which its members exchange their commodities.

In a society adopting the fourth method of commodity-exchange each merchantman would be owned by seamen, subject to no control except that of performing their economic function. The crews of merchantmen would be grouped in a Merchant Seamen's Gild, and there is no reason why there should not be a sub-gild for each ship. When a gild wanted a new ship, whatever her size and speed, whatever her character and cost, she would be built by the Shipbuilders' Gild ; the money that expressed her exchange-value would be issued to her

purchasers by the Bankers' Gild, provided that the Bankers' Gild were satisfied that the money would be repaid in future. Each ship would be say, a ten year ship, a fifteen year ship, or a twenty year ship; each year the gild that bought her would be required to pay, out of the money it received in return for services rendered, a sum equal to the exchange-value of the ship divided by the estimated length of her life. When she had been paid for she would be broken up and a new one delivered in her place.

Under such conditions the situation that now exists in our ship-building industry could not possibly arise.

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According to our method of commodity-exchange, the men who run our railways cannot obtain a supply of commodities (rails, wagons, stations, sheds, etc.) unless they borrow the money to pay for them. So they, as well as our journalists, electricians, fishermen, seamen, etc., are the paid servants of the persons who supplied the money for the necessary commodities, in this case those that constitute a railway system.¹ In a society adopting the fourth method of commodity-exchange, the railways would be controlled by a Railwaymen's Gild, which would include every person who worked on the railways. The Gild, or any sub-gild would immediately receive a supply of any commodity they wished for provided that its members were judged to be capable of paying in the future an annual sum equal to the exchange-value of the commodity divided by the number of years the commodity was estimated to last. It would not be necessary for worn-out commodities to be used; each contract would contain a clause to the effect that as soon as, say, a shed, wagon, or station had been paid for, another would be purchased to take its place.

I emphasize this about railway stations, which are only commodities. Most of the stations we ourselves use were built nearly a hundred years ago. They are ill-lit, and of archaic design; but owing to our method of commodity-exchange their replacement is unlikely. Meanwhile thousands of men—bricklayers, plasterers, carpenters, labourers, architects, etc., are idle, or compelled to work short time because we are not replacing the worn-out commodities that constitute our railway system.

The effect of our methods of commodity-exchange on our passenger railway trains is equally impressive. Since no new commodities can be delivered except in exchange for purchasing-power taken from an existing supply, and since the persons that control the railways will not pay the money unless it seems worth while, new rolling stock is only

¹ Again I emphasize that I am not speaking about land.

made available when the old stuff has become a scandal. No line is electrified till large profits loom.

In 1933 the men who control our Southern Railway reported that they had completed the electrification of 293 miles of their line. The cost, they said, was about $11\frac{3}{4}$ millions; but, since they would have had to spend about $5\frac{1}{2}$ millions whether they electrified the line or not, the so-called "Capital" cost of the electrification was about $6\frac{1}{4}$ millions. When the work had been completed more people began to use the railway and, after deducting the cost of the increase in the traffic, the men controlling the railway found themselves with over a million pounds profit. "That gave them a return of $17\frac{1}{2}\%$ on their capital expenditure. (Cheers)." ¹

It would be rash to conclude that the electrification of any other little piece of line would yield such gay results; but it is plain that the community would benefit greatly if all the passenger lines were electrified. It is our method of commodity-exchange that prevents the work being done.

The profit thus earned by the Southern Railway, according to the men who run it, was nearly a sixth of the outlay; this means that they could have repaid the money within six years; but twenty years seems soon enough, and this appears to be a reasonable figure for a society to adopt. There would be no need for the Railwaymen's Gild to raise what we call "capital"; the commodities wanted could be delivered when required on the conditions I have described. And since there would be no need to raise "capital" there would be no interest to pay, therefore railway transport would be provided at lower cost than at present. More people would be able to afford the cost of travel. Visits to the sea would not be unusual events, and an increase in the frequency and number of these visits would lead to the rebuilding of the seaside resorts.

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I have already said enough to make it plain that were society to adopt the fourth method of commodity-exchange, men would begin to multiply the number of their research laboratories, to rebuild every town and city, to electrify every railway line, to replace old ships with new ones, to build any cathedrals and churches they might want, to bury all their electric wires and cables, and to do any other thing, such as laying on a water supply to every house and cottage, which at present they are prevented from doing by their method of commodity-exchange. Each economic group would be restored to the ownership of the commodities they use in the performance of their economic

¹ *The Times*, May 20th, 1933.

function; each group would become again what it was before the fundamental fallacy warped the economic structure; a separate unit, self-supporting, self-governed.

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We have seen how the fourth method of commodity-exchange works. Trusty men do not need to borrow money. Money was invented for the convenience of men and is due to be paid to the producer of a utility when he has found a customer ready to give in exchange for it another utility for the same exchange-value. This act of exchange promotes utilities to the status of commodities. The customer is not always asked to pay at once the money expressing the value of the commodity he wants. If he is judged to be trusty he is given credit for it. When a cheque currency is used there is an inexhaustible supply of money; and it should be issued to producers when appropriate need arises. Producers receive the full money value of their productions when they have delivered them to customers judged to be trusty; these are given credit for the money, the money being specially issued in each case. Whether the commodities are productive or unproductive, the same procedure is followed. The goods are supplied on credit and paid for gradually. As soon as they are consumed, that is, at the expiration of their estimated "life" (which is designedly made to correspond with the period over which the payments extend), they are discarded and others are purchased on the same terms. In this way the wheels of industry are kept oiled, production is maintained; there is no use of worn-out commodities, no usury. No charge is made for the use of the issued money; every producer and purchaser is regarded as conferring a benefit on the community by his display of human energy. Besides, the issue of the money costs nothing. All that the contracting parties have to pay is a sum to the Gild of Bankers who keep their accounts and clear their cheques. But there is nothing exceptional in that; for every other person is treated in the same way, whether he enjoys the use of issued money or not. Incidentally, we pay for such services under our economic system.

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At the present time (1936) we white men of the Western world are faced by conditions of stagnation, hysteria and despair. In the past there have been, in various parts of the world, scenes of human suffering and distress, but if we consider, century by century, the events of the five thousand years that constitute known history, we fail to find a time when human prospects seemed less fair.

There is hunger in the midst of plenty. There is an increase of

suicides, paupers and neurotics. Wage-slaves are chained to heavy toil more securely than any slaves or serfs. We have colossal riches and grinding poverty.

In Greater London a population reputed to be civilized lives in acre after acre of mean, dreary streets, amidst chaos, squalor and distress. Here and now we have unemployment, high rents, slums, sprawling cities, lack of open spaces, the destruction of the country-side, land not reclaimed, shipyards idle. Power is in the hands of a few. There are parasites.

Many, besides unemployed wage-earners, are being prevented from displaying their energy. Few men, indeed, are able to exert their full powers, and the most intelligent of them are beginning to lose faith in the meaning of life. If conditions were altered, purpose would re-enter the arena and organized society would cease to be an outrage.

Chapter VIII

THE FOURTH METHOD AND ECONOMIC LAW

ORTHODOX thought can be compared to a railway train which runs on certain lines and therefore arrives at a certain destination. When a signalman switches to Birmingham a train which would otherwise arrive at Westbury, he alters the direction of the train very slightly at first, but as the train proceeds it moves farther and farther away from the trains that travel on the other line, till it eventually arrives at a destination far removed from that reached by the others. By starting with a consideration of use-value and exchange-value, money and currency, our thought ran on the same line as orthodox thought. But as we proceeded on our journey we found we were getting farther from the regular route taken in text-books on Political Economy with the result that we arrived at a very different destination.

Just as at the switch-points of a railway the track must be carefully laid to avoid an accident when the train passes over them, so we must be careful that any fundamental distinctions we have made in the course of our enquiry are sound. It would appear desirable therefore to discover where the switchpoint lay that caused our diversion to the destination at which we arrived, and then to examine it carefully.

It is important to remember that the basis of our economic structure existed *before* Political Economy became an organized study. Not till Adam Smith published his *Wealth of Nations*, had any comprehensive examination of our economic system been submitted to the world. Now Adam Smith did not set out to formulate a code of rules which must be obeyed in order to secure an ideal economic system, nor did he seek as a primary objective to give advice as to what should or should not be done; he did not adopt a synthetic method by starting with the fundamental attributes and requirements of men living together in communities, and then building a structure whereby an equitable and just social organization could be secured. What he did was to analyse the system of economics as it existed in England in his day, a system which had been evolved through custom and precedent during long years of trading. Having analysed it, he came to certain conclusions, namely, that unless certain factors operated in certain ways, the economic system, *as he knew it*, could not hold together.

Since his day, these conclusions have been accepted as axiomatic and on them have been based the Economic Laws.

It is vital to remember that the Economic Laws were enunciated when a metal currency was in force and when western civilization was on the Gold Standard. These conditions have now been changed, as we have seen; we do not use a metal currency and we are no longer on the gold standard. We are thus confronted with the questions: Do the old economic laws hold good under the new conditions? Are they fundamentally inappropriate or can they be amended to suit our present-day customs? If they do not hold good, and if they cannot be amended, then obviously a new system is required to serve the new circumstances. But if they can be reinterpreted or amended to secure adjustments of our methods of carrying on our commercial transactions without upsetting the whole of our social organization, then no large revolutionary change will be necessitated.

It will be enlightening perhaps if we examine one of these laws. It is stated that the three primary agents in the production of wealth are Land, Labour and Capital. The arguments concerning these three factors can be studied in any standard work on Political Economy and it is not necessary to reproduce them here.

The part that Land plays is readily understood. Man is a dry-land creature, and everything he has and uses for his material welfare has its origin in the earth or the waters on the earth. But to secure the food and clothing he needs to maintain his life, he must work. He has the materials; he has the labour; he has the brain and the skill. Fundamentally nothing more is necessary for the sustaining of life. Indeed, there are people living on this earth who live long and (presumably) happily without the introduction of the third factor, Capital. But their life is lamentably limited. In his endeavour to better his lot, man needs tools; these are his capital. He needs an accumulation of materials; these are his capital. Economists sum it up stating that Capital is that form of wealth that is used in the production of new forms of wealth. In an energetic society, this form of wealth becomes of tremendous magnitude. When it is stated that England is a wealthy country, it simply means that the accumulation of this form of wealth has risen to a very great volume. Whence does it come? If a man consumes all he produces he has no more at the end of the year than he had at the beginning, and therefore has no more Capital than he had. But if he consumes a little less each year than he produces, then a surplus accumulates and this becomes his Capital. Thus the economists rightly conclude that Capital arises *solely out of savings.*

It does not matter for the present who owns the Capital and it makes no difference to the fundamental truth of this law whether it is owned by private individuals, by joint-stock companies, by the workers or by the State. Nor does it matter who controls the Capital, where these may be different from the owners. The law will hold good in all cases.

The first fact that emerges is that the extent of production will depend upon the amount of Capital. Assume for a moment that the enterprises in which the people can engage do not occupy their full time, that is, that the labour available is more than can be used by the capital available. Unemployment is the inevitable result. Let us get this clear. The amount of production is limited by the amount of capital, and the amount of capital is limited by the amount of savings. Each generation of men is thus dependent upon the extent to which their fathers saved. If their fathers lived a full life and consumed to the extent of their production, then, since every generation is normally larger in population than the preceding, one of two alternatives must occur: either the standard of living will be generally reduced or one part of the population will live as well as or better than their fathers, in which case the other part will live below the standard. If, on the other hand, our fathers produced more than they consumed, then they left a large capital, the result of their savings. This is actually the case. But there is no guarantee that the use of all the accumulated savings is sufficient to give universal employment and at the same time raise the standard of living of the workers. Now the insufficient amount of capital available for the adequate employment of labour is one reason why we have in the same country prodigious wealth on the one hand and dire poverty on the other. It cannot be otherwise. The economic laws say so. The next step in orthodox thought is only too apparent. When one surveys the conditions under which our people live and consider the unemployment, inadequate housing accommodation, antiquated methods and many other matters that are so obviously bad in our towns and country-side, one is inclined to join those who cry out: Nothing can be done about it, for that is the way economic laws operate.

Other reasons, portentous and high-sounding, are given by the publicists, and we hear continual references to World Depressions, Trade Cycles, Overpopulation, Scarcity of Raw Materials, Overproduction, and so on. These merely serve to confuse the issues. Any amount of talk about depressions, trade cycles, overproduction and all the other catch-phrases is sheer stupidity when thousands of houses are wanted and those who can and are ready to build them are standing idle, when coffee is dumped into the sea while thousands of people are

yearning for it, when famine reigns here and a surplus exists there. In desperation therefore, men are driven to conclude that if those are the necessary conditions brought about by Capital, then the sooner we get rid of the whole system and adopt something else, the better for the people as a whole. And so various theories are evolved and they appear under all kinds of titles: in Russia it is Sovietism, in Germany it is National Socialism, in Italy Fascism. These three have been or are being tried. Other suggested solutions appear under other names: Social Credit, Syndicalism, Distributism and multifarious forms of Socialism. The object of them all is the same, namely, to get rid of the present methods of operating Capital.

The cure for most of the ailments of the human body, as advised in medical journals is: remove the cause. The doctor's function is to ascertain the cause and then advise the patient on the procedure to be undertaken to remove it. We are not content in these days to accept a witch-doctor's advice to erect a special sort of hut over a dead man's grave in order to get more sunshine—although the witch-doctor has the evidence of history and precedent to support him. "Thus it has been, and thus it must be now and forever more." Yet we are liable to accept without demur the dictum of the older economists that unemployment, slums and a host of other ills are necessary, unavoidable and entirely unalterable.

This is not so. Let us examine this law again. Capital is necessary for the production of commodities. The law states it can only arise out of savings. It is *assumed* from this statement that the savings must have already been made, and *it is this assumption which is now challenged*. It is here that the switchpoint lay that took us away from orthodox thought and led us to the conclusion that, having discarded the metal currency and the gold standard (in practice, these had been of no importance for many years before any legislative action was taken), the source of our troubles lies in a misapplication of a fundamental law of economics to our method of commodity-exchange.

It has been shown that the wealth accumulated in the past, that is, present capital, does not exist entirely in stock-in-trade, buildings or materials of any sort, or in gold or any other precious metal used as currency, but as purchasing-power. The government suddenly requires huge quantities of equipment and food supplies with which to carry on a war. It has not at its disposal such an amount of wealth as is necessary to purchase them, that is, it does not possess the requisite purchasing-power. We have seen in the previous arguments that the extent of purchasing-power bears a direct relation to the accumulation of wealth and it is unsound to create an artificial purchasing-power when no

wealth has been produced. That is inflation, which, as the world has seen in the last twenty years, only leads to disaster. The government therefore borrows the purchasing-power of its citizens who have by saving accumulated a certain amount of it; it secures a further supply by taking a proportion of the purchasing-power from its citizens immediately it is made, by levying war taxes. But these sources do not yield nearly sufficient to supply the immediate need. How does it get the rest? By creating it? Purchasing-power can only be created by the production of wealth, and shells and tanks are such unstable commodities that they can scarcely be considered economic wealth.

The government secures the extra purchasing-power it requires by capitalizing the savings of the future. Wars must be paid for. It would be well for us not to deceive ourselves on that point. No government can create purchasing-power which is economically sound. It can however borrow it on condition that it undertakes at some future time to pay it back. It has been shown that all that is necessary is for the bank clerks to get extra busy with their pens in order to supply the immediate need, *but* the debit is recorded and unless it is offset out of the future earnings of the people, prices will inevitably rise to such a fantastic figure that all trade will become impossible. It must and will be paid back—the talent, industry, capabilities and honesty of the British people are the guarantee.

There is nothing unsound or even risky in this procedure, nor is it bad policy. It is merely a matter of control. The only condition for its smooth and successful outcome is that the guarantee is inviolable. Nor is it of first-rate importance how long it takes to pay it back. It simply amounts to this, that a small part of the wealth created by every individual during the period allotted for the repayment shall be taken from him. Certainly, the sooner it is paid, the sooner the individuals will reap the full benefit of their work, but there should be no reason to inflict such terms on them that they are reduced to any real hardships.

It is this principle that is advocated in the preceding chapters. If a government can do it in times of stress when the need is urgent, then it can do it in peacetime. And if a government can do it, then there is no reason why an individual or group of individuals cannot do it, provided always that the guarantee is satisfactory.

Our discussion of the fourth method of commodity-exchange shows the application of this principle to the normal trading among the people. An integral part of the procedure is the operation of a cheque-currency, and it is worth while to remind ourselves that this would be no innovation, since the bulk of commercial transactions are already

conducted in that way. We can rid our minds of the fetish that every transaction must be backed by a hidden mass of gold or other metal since, as was shown in our discussion of Currency, the amount of it sufficient to cover even one day's transactions does not exist.

The real burden is not the debt, but the interest that is charged for the use of the purchasing-power. Usury is at the root of the economic ills in our social structure, that is, the creation of purchasing-power without the production of goods. The petrification of money, or the promotion of what is merely a symbol to the status of an entity, must be abolished if we are to rid ourselves of the intolerable burden of having non-producers and non-workers living at the expense of the community at large.

* * * *

If we can reorient our minds to accept this saner interpretation of the part that capital plays in the production of commodities, if we can amend our financial customs which have been shown to have been the fundamental cause of so many of our adverse conditions, then there is no need for any revolutionary -isms, no matter under what name they masquerade. The history of Social Reform in England during the last hundred years has been a continual fight against the privileges those customs have conferred on certain sections of the community at the expense of other sections. Concessions have been grudgingly made, often only after much inter-class bitterness, when the workers have been set at dispute with the employers, with the result that our Statute Books are full of Acts which are nothing but patches on an old garment. It is now become such a poor threadbare tattered affair that it is questionable if it will stand any more patching. On the public platform and in the pulpits, we hear continual eulogy of the great triumphs of Social Reform, but neither our public-spirited men nor our religious leaders have had the courage to probe the economic system that caused such disgraceful conditions that made these reforms necessary. There are signs that those who gain by the present perverse disregard of justice and equity are beginning to see the handwriting on the wall. There may be expected therefore to follow more ameliorative measures, more palliatives, more "patching." These will emanate from those who have been and are still the privileged under the prevailing system, and excellent lip-service will be rendered in their advocacy and support. If the under-privileged accept the bait, the old story of Social Reform will continue.

The state of the economic world to-day is as a gauntlet thrown down to the men and women of the Western world, challenging them to bring their intelligence and their saneness to bear on the serious search

for a solution. The search will have to start at the fundamental factors that govern our social life. Nothing must be accepted because someone has said so, or because it has always been so. Instead of Commissions whose terms of reference are to recommend the shape and colour of the new "patch" to be put into the old garment, the great need is for a Commission to study our economic structure and answer the simple question : What is the real *cause* of the trouble? It is submitted that such an enquiry would reveal that our system of commodity-exchange with its crippling burden of usury, the petrification of money causing a financial class which lives and waxes rich without producing anything or contributing directly to the social services of the community, the issue of money without the production of commodities and without being adjusted in a manner which is economically sound and our system of land-ownership, are predominant contributing factors.

* * * *

Our present economic system may be compared to a house the foundations of which are beginning to crumble. In this house the inmates are cramped and uncomfortable. Some are more cramped than others and are continually trying to invade the space occupied by those who seem to be less cramped. These are so busy defending what they have that there is no time for them to consider how the whole house might be rebuilt. It certainly seems that the house is likely to fall on top of them before long; but the occupants cannot pull it down altogether until new walls at least have been erected to take the place of the old ones.

First, patchwork of the old house must cease. Then all hands must work on digging entirely new foundations. On these foundations new walls must be built as soon as possible. When these are erected the old ones can be pushed over or left to fall of their own accord.

All human circumstances are man-made. If there were no order in the cultural process, if anarchy reigned there, human destiny would be outside human control. But there is evidence that there is no anarchy in the cultural process; order reigns there. Human destiny is within human control. We can take charge of our future, if we will.

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